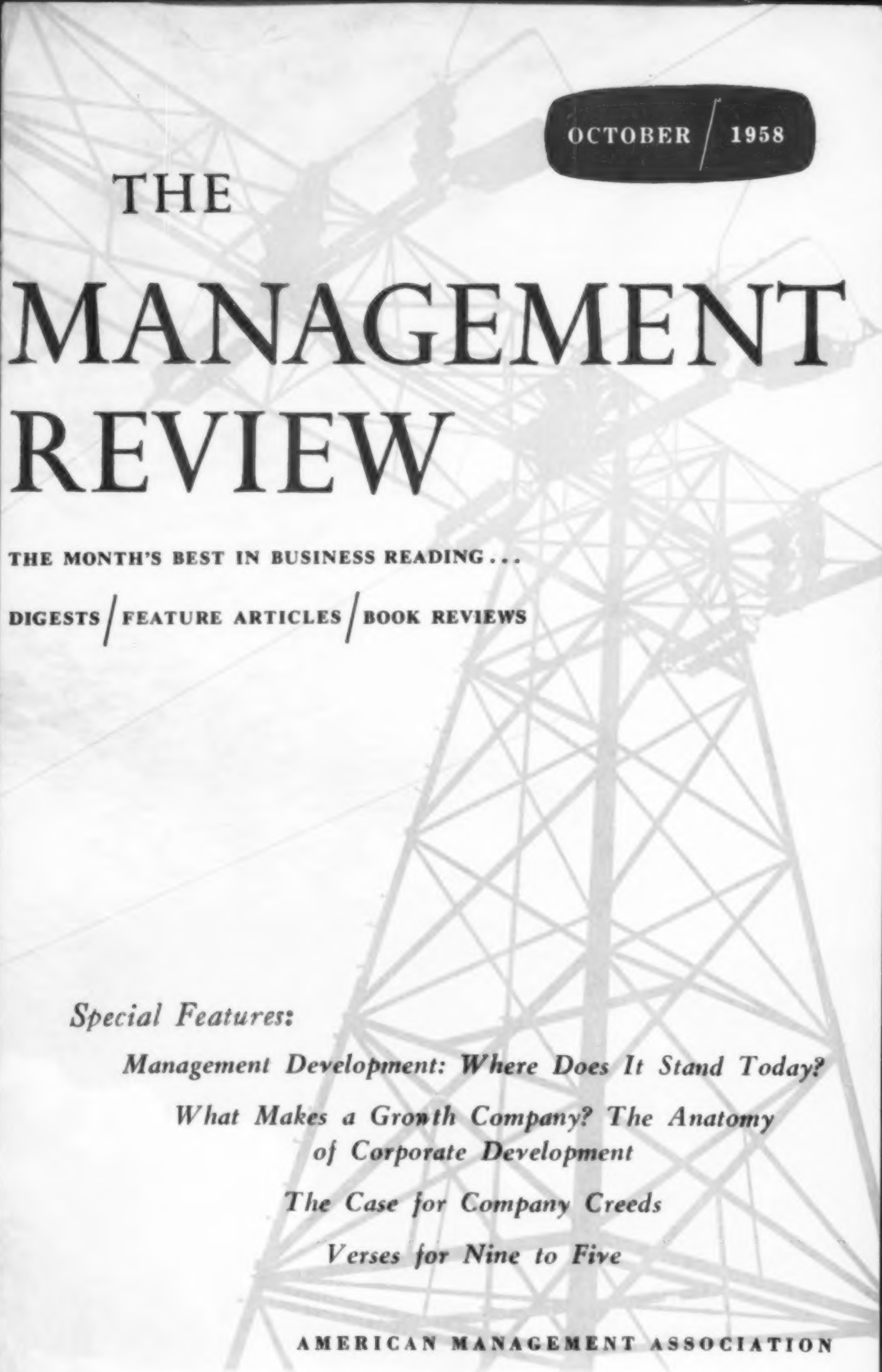

OCTOBER / 1958

THE MANAGEMENT REVIEW

THE MONTH'S BEST IN BUSINESS READING . . .

DIGESTS / FEATURE ARTICLES / BOOK REVIEWS

Special Features:

Management Development: Where Does It Stand Today?

What Makes a Growth Company? The Anatomy of Corporate Development

The Case for Company Creeds

Verses for Nine to Five

AMERICAN MANAGEMENT ASSOCIATION

in this issue . . .

- **The Payoff on Management Development.** That top management no longer needs to be sold on the importance of management development is obvious from the dramatic growth of development programs throughout industry. But the question now at the fore is: Are these programs really yielding the expected results? In this month's opening article, ROBERT K. STOLZ offers some guides for assessing the worth of a program, discusses recent changes in emphasis in the management development field—and points out some of the hard-core problems that still persist.

- **What Makes a Growth Company?** Despite all the talk about forward planning, relatively few corporations are organized to cope successfully with the problems of the future, declares PHILIP MARVIN, Manager of AMA's Research and Development Division. These few comprise that small minority known as growth corporations, whose success is the subject of executive speculation and envy. In the article beginning on page 9, Dr. Marvin describes the key steps in planning that make all the difference between the leader and the also-ran.

- **More Truth Than Poetry.** Too many managers still tend to regard the company creed as strictly "blue-sky" thinking that has little practical application to the day-to-day problems of running a business and making a profit. In *The Case for Company Creeds* (page 14), STEWART THOMPSON, author of AMA's recent research study on company creeds, shows how a written statement of management philosophy is actually a kind of corporate "standard of performance" that can be genuinely useful in uniting management effort and setting common goals.

- **And for a look at the lighter side** of the management job, see GEORGIE STARBUCK GALBRAITH's "Verses for 9 to 5."

—THE EDITORS

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THE MANAGEMENT REVIEW is published monthly by the American Management Association, Inc., at 1515 Broadway, Times Square, New York 36, N. Y. Entered as second-class matter March 26, 1925, at the Post Office at New York, N. Y., under the act of March 3, 1879. Subscriptions: $7.50 per year (nonmembers, $12.50). Single copies: $1.00 (nonmembers, $1.25). Volume XLVII, No. 10, October, 1958.

Changes of address should be forwarded to the publishers *six weeks in advance* and postal zone numbers should be included in all addresses.

The American Management Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

An index to THE MANAGEMENT REVIEW is published annually with the December issue. The contents are also indexed in the Industrial Arts Index. THE MANAGEMENT REVIEW is microfilmed by University Microfilms, Ann Arbor, Mich.

MANAGEMENT DEVELOPMENT:

Where Does It Stand Today?

■ **Robert K. Stolz**

McKinsey and Company, Inc.

MANAGEMENT DEVELOPMENT, long the center of attention in management circles, is now becoming a center of some controversy. On the one hand, momentum behind formal development programs is increasing. At the same time, top management is beginning to scrutinize the results of these development efforts. More and more companies are asking: Are management development programs really worthwhile?

The large corporation without a formal management development program today is the exception. Medium-sized companies are following suit, and programs are also springing up in smaller organizations. Five years ago, an AMA survey conducted for the Fund for Adult Education showed that more than 50 per cent of a sampling of over five hundred leading companies had programs. In view of the continued rapid growth in programs since that date,

we can estimate that the development of two out of three supervisors or executives throughout American industry is now being guided, planned, or stimulated by some type of management development program. This is an effort of considerable magnitude and importance.

But how effective are these programs? Operating managers frequently grumble about them, the time they consume, the paperwork and procedures involved, and most important, about an apparent lack of results. There have been a number of recent articles with sharply barbed criticism of formal, orthodox programs of management development. A best-selling book goes so far as to argue that management development programs not only fail to develop managers but actually impede their development. It has been contended that the steps in a typical development program are not development at all, but "manipulation"—and ultimately doomed to failure. Some have even gone so far as to assert that the basic assumptions underlying management development programs are false, and the formal processes of management development are unsound.

TIME TO TAKE STOCK?

These rather contradictory trends—the increase in the intensity of management development effort coupled with a growing skepticism as to results—suggest that management should evaluate its formal, programed management development effort rather carefully. If we're way off the track, as some critics would have us believe, it is time that we knew this; but if evaluation shows the effort to be worthwhile, then the criticisms of management development can be put to constructive use in strengthening and improving present programs.

In this connection, McKinsey and Company, Inc., recently made an intensive evaluation of the programs of three major companies. This was supplemented with a survey of the experience of a number of other companies, in which the opinions and judgments of operating and staff executives were gathered through depth interviews.

In considering the results of these studies, it must be borne in mind that there are no measuring tools for determining the dollar value of management development programs as against costs.

Whether or not a program is worthwhile will probably always remain a matter for critical judgment on the part of top management, since the "payoff" on any program is qualitative rather than quantitative, and both the costs and benefits are frequently indirect. The judgment is not an easy one, for the issues are complex.

To narrow the scope of this discussion, this article will concentrate on those elements of management development programs that are centered around performance appraisals, for these are the elements that are at the heart of the management development controversy. This means that we shall not deal directly with the education phase of management development—i.e., development through company training programs or advanced management education programs offered by universities or others. This is not because the education phase is not important, but because its evaluation merits a separate study in itself.

Specifically, our discussion will center about the following questions:

1. What are the guiding principles behind modern management development programs, and are they clearly understood?

2. What major changes in management development have taken place in the past few years?

3. What are the hard-core problems that must be overcome if programs are to meet top management's expectations?

4. What are the benefits that management has a right to expect from management development?

ARE THE GUIDING PRINCIPLES CLEAR?

Why is it that one company will get considerable benefit from its management development program, while another company—apparently carrying out the same steps—gets relatively little benefit? It is frequently because the first company goes about the job with a sense of purpose and believes in what it is doing. The second company may merely go through the motions.

How does a company bring about a sense of purpose and a belief in the program among managers who must carry it out? One requirement, certainly, is for managers to have a common understanding of the guiding principles that have shaped their program.

Our survey indicated that there are guiding principles under-

lying the modern management development program. These, it will be seen, are more in the realm of simple good sense than abstract theory. In companies surveyed, the following appear to be the key guiding principles in the management development effort:

1. Most managers do not come near to realizing their full potential. Roadblocks are put in their way by their own attitudes or habits, by their superiors, or by company practices. These roadblocks can be identified and at least minimized by management development action.

2. All development is, in the final analysis, self-development. But the company can help identify and eliminate the obstacles to development, provide challenge and opportunity for it, and encourage the manager to help himself.

3. Most men sincerely want to do the best job they are capable of doing. They want to improve, know where they stand, know how their superiors view their performance and what can be done to improve it.

4. Development is usually best approached from the standpoint of helping the individual do his *present* job better. This is generally the first step toward helping him to increase his effectiveness and prepare for greater responsibility.

5. Management can profit from the development of every member of the management team, at all levels, and development efforts should not be confined to a selected group that at first blush appears to have highest potential. Though greater effort will be invested in managers who demonstrate continuing capacity to grow, the opportunity to benefit from the development program should be open to all.

6. All development effort should be individualized. One man's strengths may be another man's weaknesses. Training and development, therefore, must be tailored to individual needs.

These simple principles would appear to be self-evident. Yet a surprising number of executives are unaware of them or have lost sight of them. Failure to understand and appreciate the principles underlying management development is, in any case, tantamount to working without a clear-cut goal, and it is one reason why some programs do not win whole-hearted support. Thus, top management's first step should be to ask: What are the guiding principles

on which our program has been built? Are our management people of one mind about them? In our preoccupation with techniques, have we lost sight of them?

EVOLUTIONARY CHANGES

If anything is certain, it is that management development has undergone and continues to undergo fairly major changes, in concept and technique.

For example, out of 23 companies contacted in one phase of our survey, 14 have had management development programs in effect for more than five years. Eleven of these 14 have made substantial changes in approach and method since their programs were installed. A number of new trends are clearly emerging.

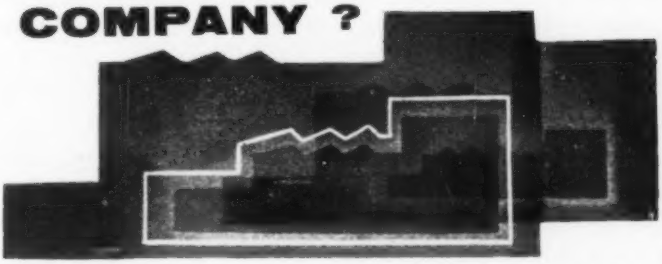
1. SHIFT IN OBJECTIVE

Perhaps the most important change is the shift in objective that has taken place in recent years. When management development first got started in the years immediately following World War II, top management faced a wave of overdue retirements, and in addition desperately needed more skilled managers to keep pace with unprecedented business growth. Management's urgent need, as things looked then, was to find men with the potential to move ahead quickly and fill specific jobs. Development programs were fashioned to meet that need. The objectives were primarily to identify a small group of high-potential men and give them special and intensified training on a "semi-crash" basis so that they could be promoted fairly quickly into key positions.

But by the early 1950's the need in most companies for immediate replacement had tapered off. Management was, however, aware of another need: to develop men continuously throughout the business, not on an emergency basis, but as an integral part of management's total program to prepare the company for its role in a rapidly expanding economy. Thus many companies brought about a sharp shift in their objectives in management development. A company's principal objective became that of helping every member of management to improve his performance on his *present* job; secondarily, by doing this, the company would be stimulating man-

(*Continued on page* 64)

What makes a GROWTH COMPANY ?



The Anatomy of Corporate Development

■ *Philip Marvin*

Manager, Research and Development Division
American Management Association

Managerial myopia is directly responsible for a great many of today's business failures. The executive fire brigade has been so busy putting out brush fires that fire prevention programs couldn't be planned. Companies that have been successful, however, have been those that could plan ahead, anticipate crisis conditions, and avoid them by recognizing early warning signals.

Today's industrial corporation is built on the products of technological advances and achievements. Increasing awareness of the importance of technological development to the welfare of the nation's individual businesses is resulting in accelerated technological drive.

PLANNING FOR THE FUTURE

In a few short years, corporations will experience the impact of this accelerated drive on the competitive corporate climate. The warning signals are up. This is the time to plan ahead—to prepare to be part of the future.

Executive responsibilities fall into two main areas—operations-oriented and development-oriented. The first area is concerned with the day-to-day operations that sustain the corporation in the short-run period. These operations require the successful performance of vitally essential functions designed to keep present products flowing into the hands of widening groups of satisfied customers.

The development-oriented area concerns problems to be faced in the future—considerations that are often crowded out by the pressing nature of day-to-day problems.

Relatively few corporations are organized to cope successfully with the problems of the future. These few corporations are among the small minority group that are recognized as growth corporations, and their success is the subject of executive speculation and envy.

The success of growth corporations is quite simply attributable to a planned attack on the future designed to answer, in terms of programs that management can put into motion, these four pertinent questions:

What's ahead?
What's our position?
What are the opportunities?
What should we do?

The objective of this planned attack on the future is to incorporate integrated information on today's operational resources in a plan for growth, stability, and increased profits.

This information must be put forth in an orderly, understandable form for management assimilation. Each question must be fully explored and answered. Findings must be integrated into total programs, and dollar signs and timetables must provide a frame of reference for management thinking.

GUIDEPOSTS TO PROGRESS

It isn't always easy to put a growth program in motion, but efforts are handsomely rewarding once it commences to pay off. There appear to be four major phases in initiating and implementing such a program.

1. First, management must recognize the need for a growth program. Executive thinking is periodically picked up and carried aloft by gusts of emphasis on public relations programs, research

and development, cost reduction, long-range planning, executive development, diversification, and the like. Selected emphasis on one or another of these and other areas becomes a temporary style of thinking that dominates the scene for brief periods.

Recognition of the need for growth planning is often part of this transitory thinking. But before programs are implemented, top management interest can wane, and programs suffer from subsequent lack of support. In companies with successful growth records, management has recognized that growth planning must be a day-to-day function, not one motivated by the mood of the moment.

Not everyone wants to grow. Some executives sense that with growth they may run the risk of losing personal control. This fear is often justified; corporations have grown beyond the capacities of individual staff members on more than one occasion, and this has resulted in personal tragedies. But even to stand still some growth programing is essential. All products are continually subjected to the forces of obsolescence; sooner or later they are displaced by contemporary counterparts. No amount of restyling or added merchandising efforts could sell a steam locomotive or a surrey with a fringe on top in today's markets. Growth planning is essential even to maintain the status quo in an era of rapid technological development.

2. Second, management must definitely commit itself to the task of developing a planned future for the corporation. Failure to do so implies that management has determined not to follow a course of forward planning for profits.

3. Next, management should state its objectives. Ralph J. Cordiner, President of General Electric Company, in his book, *New Frontiers for Professional Managers,* observes that "the first step in organization is to sharpen up the objectives of the company as a whole, to provide a framework for the objectives of each organization component and each position of the company." Formulation of these guideposts for corporate operations is the basis for growth planning.

Although only a few corporations have well-formulated objectives, the development of such goals establishes the ground rules for growth. A statement of the principles that are to be adhered to

constitutes the frame of reference against which all corporate activities can be examined.

Objectives shouldn't be rigid and inelastic. As new supporting evidence is brought to the attention of management, justifying a restatement of objectives, changes should be made. But until this has been done, stated objectives should stand and all corporate activities should conform.

4. The fourth phase in initiating and implementing growth programs is one of matching resources against opportunities. This phase usually calls forth the greatest concentration of effort and, therefore, seems the most important; it is to this phase that management almost always turns its attention when programs prove ineffective.

Yet the difficulties that defeat growth more often than not lie in the three phases that precede the matching of resources against opportunities. Growth programing has little or no chance of success if these steps aren't taken first.

Matching resources against opportunities is not a one-man or a single-group responsibility; it must be a cooperative undertaking. Corporate development is the concern of every manager.

PLANNED VS. UNCOORDINATED ACTION

Danger lurks in uncoordinated action—action taken without making a genuine effort to collect and use available facts that may have a direct bearing on the outcome of future decisions. Programs for the future won't always unfold as planned because, admittedly, we can't foresee the future accurately. But managers frequently fail to make full use of facts that are at their disposal.

Uncoordinated action may reflect an unwillingness to face facts. Many senior management men learned their trade in days when business was conducted on something of a trial-and-error basis. Some of these men are too fixed in their habits to learn new techniques.

Business history now provides a wealth of background data that makes measurement and evaluation possible for future managers. Junior executives, rising through successive management echelons and anxiously searching for guides to help them achieve high performance records, have been more than willing to draw inferences

from past business experience, and present-day practices of so-called scientific management have arisen.

Conflicts often arise when these junior men sponsor long-range planning. Senior executives with hours of solo time flying by the seat of their pants are understandably reluctant to make the transition to new multi-engine administrative techniques. This attitude is highlighted by a statement made recently by the executive vice president of one of the country's large companies, who remarked that the president of his company liked to talk long-range planning but was actually annoyed and embarrassed when the facts refuted his "judgment."

Other reasons for uncoordinated action exist. Some managers put personal interests of the moment ahead of business interests. Personal prestige, social competitiveness, and many other factors are known to have motivated uncoordinated activities in the past. Notwithstanding, planned action is the only sound course to follow in today's highly competitive economy, and the great majority of our business managers are trying hard to better their score by means of better planning.

THE CORPORATE DEVELOPMENT FUNCTION

Corporation development as a major management responsibility has as its basic objective integrating, evaluating, and programing operational intelligence for growth, stability, and increased profits. Four essential functions are involved:

1. Evaluating the Future
2. Appraising Operations and Programs
3. Planning New Ventures
4. Adjusting to the Future

Each is part of the process of matching resources against opportunities. Each, in varying degrees, calls upon top management talent and the efforts of divisional personnel.

EVALUATING THE FUTURE

Any solid evaluation of the future must explore the economic feasibility of new technologies and long-range demand patterns, as well as the business climate itself.

(*Continued on page* 73)

The Case For Company Creeds

■ ***Stewart Thompson***
Supersilk Hosiery Mills, London, Ontario

It has become almost a truism of good organization practice to say that definite and clean-cut responsibilities should be assigned to each executive. But some companies arrive at "clean-cut responsibilities" as though they were dividing a pie: They take the whole pie, cut it up, and give each manager his portion. But after it has been cut and passed out, they don't have a pie any longer; what remains is an organization of separate pieces. As a result, the company operates as if "sales" and "manufacturing" and "finance" and "personnel" were, for the most part, unrelated activities.

In one company, for example, thought was being given to holding regular meetings of foremen and supervisors. But when a sales executive was asked to outline the advertising activities for which he was responsible at one of the meetings, he quashed the idea with a brusque retort: "It's none of their business." He clearly saw some of the differences between his work and that of the factory supervisors, but this and subsequent conversations pointed to his failure to sense the nature of the similarities. In fact, a "none-of-their-

business" attitude can go so far as to create tightly compartmentalized empires within the company—a situation that has prevented the growth of more than one enterprise.

CHANGING CONCEPTS OF RESPONSIBILITY

In the past, arbitrary authority was the outstanding characteristic of business operations. Personal leadership and "drive" on the part of the top man—to the exclusion of training and organization and mobilization of everyone—were regarded as the essential ingredients of business success. Now we know that in every job in every company there is some managerial content, and that even individual workers to some extent determine for themselves how much and what kind of work they are going to do. An executive can accept instructions as passively as an envelope accepts a letter, or he can actively accept and *energize* an order by including in its execution his own best thinking.

Things have changed since the time when the ideal of the top manager was to pinpoint responsibility for every activity so accurately that if something went wrong he could point to a particular person and say, "It's *your* fault." As we have become more aware of the interrelatedness and interdependence of business functions, we have realized that poor decisions cannot always be traced back to a single cause. We no longer believe that all an executive need do is perform expertly and conscientiously in his own limited area; we know that he can't make his greatest contribution unless he feels a responsibility for the entire business.

DIFFERENCES AND SIMILARITIES

Obviously, unless we make differentiations we will be faced with insurmountable difficulties in organization, training, and operation of the business. Even the one-man enterprise—a grocer, for example—must differentiate among the various processes of his business: purchasing, display, accounting, delivery, etc. Yet he must also realize that they are aspects of a single complex process.

As important as rational differentiations are to the successful organization and execution of business tasks, there is a growing awareness that something more is needed. Somehow, in paying attention to the differences, we have tended to neglect the similarities

—the body of knowledge that must be common to the process of sales and production and finance within each individual company. Perhaps we are beginning to realize that a business is something more than an accumulation of activities. It is an entity, and to operate successfully we need an over-all picture of what is going on and where we are heading.

How an executive pictures his own relationship, not just to other parts of the business but to the business as a whole, is an important factor in his effectiveness. He should be able to visualize his individual activities against the background of the over-all nature of the business, and the picture should reflect his awareness that there are ideas that are common to the entire organization. The manager must know the nature of the whole before he can make wise decisions in his own portion of that whole. It is vital, then, for the company to develop a common body of organized knowledge to help individual persons to function effectively as healthy organs of one over-all system.

COMPANY CREEDS

How do we avoid having individuals pursuing their own interests at the expense of the enterprise? How do we get a common understanding and resulting cooperation? How do we determine and organize the basic information and criteria that the decision-makers in our organization must have?

One way that some companies are approaching these problems is through the development of a company creed—a document in which the managers of the company have set down some ideas and ideals dealing with the conduct of the business and how it is to be managed. These statements often spell out responsibilities of the company to shareholders, customers, financial institutions, workers, suppliers, and so on.

Of course, not all company creeds have been given the serious thought that such a basic statement of principles requires. Some have been copied from other sources. Others have been developed in a meeting or training session of managers far off in some woodland retreat, away from the pressure and reality of everyday experience. Still others have been developed by individuals not responsible for managing the business.

With such careless or unrealistic approaches, it is not surprising that the application of the resulting documents to actual daily experience is sometimes difficult to discover.

SOME TYPICAL CREEDS

No matter what it is called—philosophy of management, basic goals, fundamental principles, etc.—the company creed is an attempt to express the values, ideals, assumptions, and principles of the company for the guidance of those who work in it. It may be a general statement, brief and abstract, or a detailed description of specific company goals and concrete objectives. Here, for example, are two actual company creeds now in use in industry:

EXAMPLE 1

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY
Cleveland, Ohio

THE COMPANY'S CREED: In order to know the Company, you should know the creed by which it lives:

We believe the first obligation of the Company and the employees is to supply the public with the best modern utility service at reasonable rates.

We believe in keeping the Company a first-class place to work; paying fair and just wages and salaries; providing the employees with such benefits as vacations with pay, sick leave with pay, paid holidays, pensions, and life insurance; and continually endeavoring to maintain good working conditions.

We believe in the Company doing all it can to assure employees of security, opportunity, and recognition of work well done.

We believe in the Company and in every employee helping to develop the fullest and finest teamwork.

We believe in the Company and the employees constantly striving for safety in all operations.

We believe in safeguarding the investment in the Company, paying a fair return to the investors for the use of their capital, and maintaining a record of earnings which will enable the Company to attract new capital to continue to expand its services.

We believe the Company has immense opportunity for growth, and that its growth will create new and larger opportunities for the employees.

We believe in the Company and the employees participating in leadership in community-building.

We believe in the Company and its employees doing their full part to defend the American way of life from its enemies, and so to preserve freedom and justice.

EXAMPLE 2

H. P. HOOD AND SONS, INC.

FUNDAMENTAL OBJECTIVES

We recognize that industry justifies its existence to the degree that it is of service to the community.

We also recognize that our industry is one in which competition is a dominant and beneficial influence. Competition has resulted over the years in a benefit to the community by the establishment of high standards of quality, service, and efficiency.

Therefore, our over-all objective is to conduct our business so that all groups in the community will regard us as the best company in our industry and want us to prosper and grow.

In order to accomplish this, our direct goals are:

1. To make available to consumers a combination of price, quality, variety, and service through friendly and trustworthy people which will make our company the best in our industry from which to buy.
2. To provide farmers who sell to us a combination of money and worthwhile services which are greater than they can obtain by selling their products elsewhere.
3. To establish wages, working conditions, benefits, job security, opportunity, and personal recognition which combined will make our company the best in our industry with which to work.
4. To offer investors in company stocks and debentures a greater return on their money and greater security than they can obtain elsewhere in our industry.
5. To demonstrate that H. P. Hood and Sons is a good neighbor and citizen by our active support of good government, education, health programs, and other good works which benefit the entire community in which we operate. Our goal is to be a leader in our industry.

To reach these objectives, we must operate more efficiently than our competitors. We must also pioneer in developing adventurous programs and be willing to take risks, so long as the balance is in the best interest of attaining our over-all objective and goals.

USING THE COMPANY CREED: A SURVEY

To determine how companies are using creeds today, the American Management Association recently sponsored a survey of the experience of a number of companies in developing and using

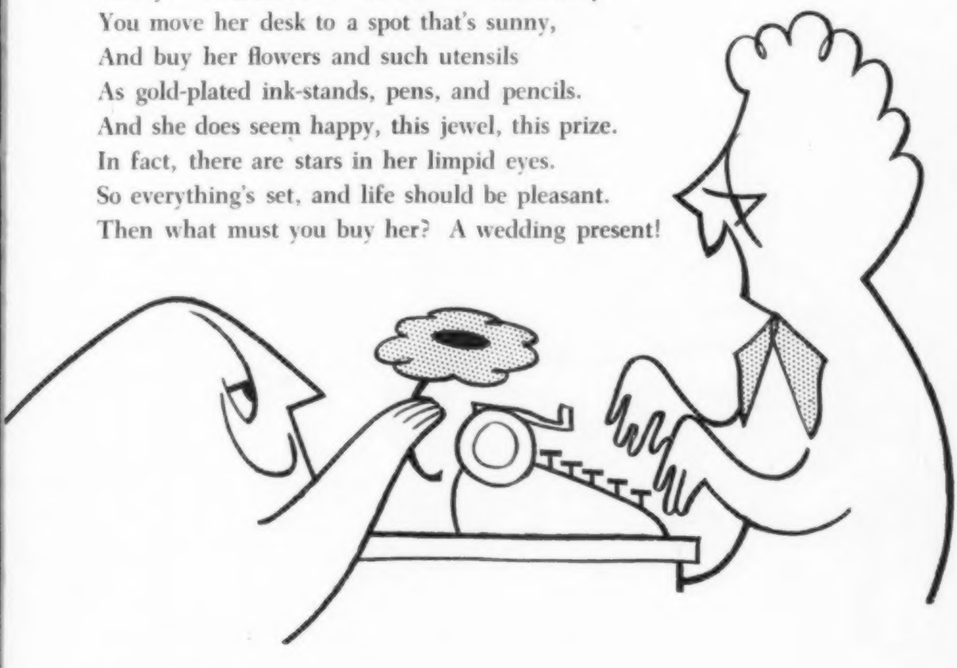
(*Continued on page* 81)

Verses for Nine to Five

by GEORGIE STARBUCK GALBRAITH

Buy-Buy, Boss!

You get this secretarial treasure,
This gem who will make your work a pleasure.
You'll keep her happy: you've sworn and vowed it!
You'd buy her mink if your wife allowed it.
But since that's out, you're happy to buy her
The blue typewriter of her desire,
A coral phone, for her dialing pleasure,
A crystal ashtray—and, for good measure,
A postage meter in rose and cream.
For here is the secretarial dream,
And you wouldn't lose her for love nor money.
You move her desk to a spot that's sunny,
And buy her flowers and such utensils
As gold-plated ink-stands, pens, and pencils.
And she does seem happy, this jewel, this prize.
In fact, there are stars in her limpid eyes.
So everything's set, and life should be pleasant.
Then what must you buy her? A wedding present!

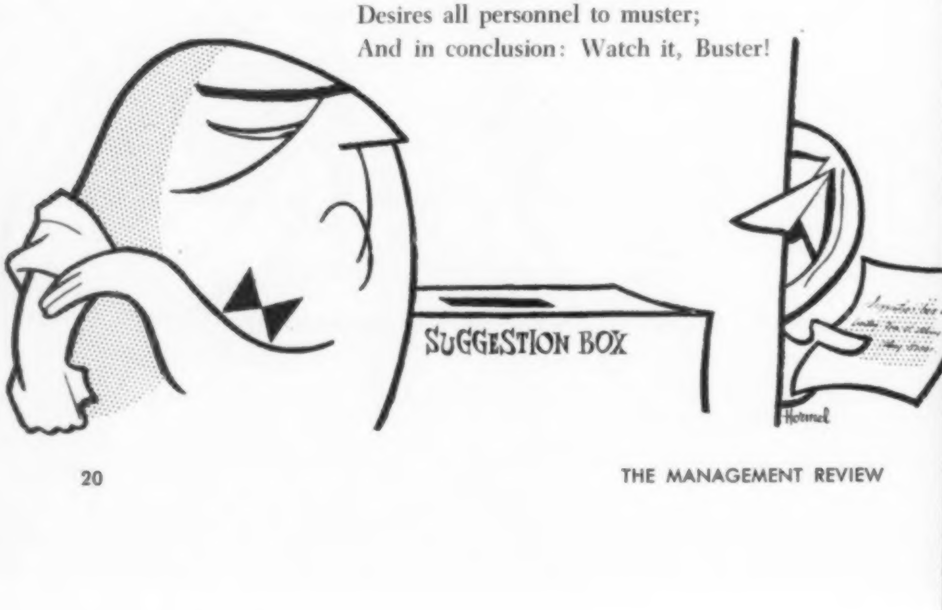


A. M. P. S.
To the Office Party

We reveled until the hours were small,
Who wearily hoist us from the hay.
Last evening we had ourselves a ball . .
An item we won't be on today!

Memo
to be Tacked to a Suggestion Box

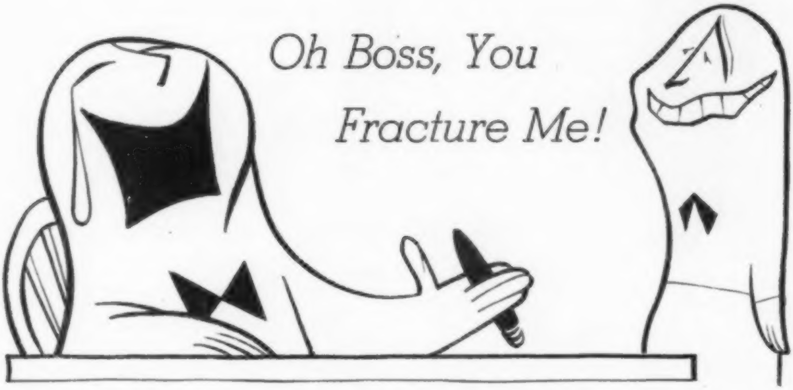
The management regrets to state
It views all such unfortunate
Suggestions as "Drop dead!" as quite
Impossible to expedite,
And feels such thoughts do not reflect
The attitude of warm respect,
The sense of ceaseless loyalty
And honor that the company
Desires all personnel to muster;
And in conclusion: Watch it, Buster!



Prejudicewise

Such terms as *taxwise*
And *jobwise* and *strikewise*
Inspire me axwise
Or gunwise. Likewise?

Oh Boss, You Fracture Me!



That story was funny you told just then,
A dilly, a gem, a shriek.
(But I think it was even funnier when
I told it to you last week!)

Public Relations in One Easy Lesson

In view of some recent observations,
Here's the conclusion that I arrive at:
The delicate art of public relations
Consists of keeping relations private.

■ *Drawings by* Al Hormel

The *Dilemma* of MIDDLE MANAGEMENT

By Nathaniel Stewart

Condensed from Nation's Business

WHAT IS BUSINESS doing about the problem of middle managers? The answer seems to be very little. Middle managers are still the forgotten men of business and industry. They have been bypassed, cut off from the vital affairs of the company, at times maligned.

Yet the fact is that unless we face the middle-management problem and take constructive action to solve it, we are going to be making inadequate use of the kind of seasoned, hard-to-find manpower that companies need if they are to expand, diversify, decentralize, develop and market new products, and achieve other breakthroughs to rise above the competition.

The problem is complex. There just isn't room at the top for all middle managers. Most of them will probably not rise much beyond their present levels, despite additional experience and participation in training programs. Yet we live under a cult of success which regards a man as an also-ran, a nonpromotable, a failure if he does not make the front-office executive ranks. This leaves many men on the middle management levels with psychic wounds from which it is not easy to recover.

What is needed here is not soft paternalism, social workers, or chaplains. If we are to tap the vast fund of available manpower right within our companies, we need:

1. A new concept of what constitutes managerial success—one that will relieve us of the old Horatio Alger climb-to-the-top-rung-of-the-ladder doctrine and make it clear that certain kinds of achievement are of themselves success of a high order.

2. A meaningful, productive, and dignified place in the organization for all—even the man whose prospects for promotion are slim.

3. More realistic judging of middle managers. Management cannot pass on to the personnel department

its prime responsibility for assessing the middle manager's performance and providing personalized executive coaching.

4. A salary administration scheme realistically tailored to the goal of holding competent middle managers, who must maintain certain economic standards in their communities and in representing their executive echelon.

5. An understanding of middle management as a way of life with its own values, pride in technical competency and carry-through of policies, standards, beliefs, reconciliations, anxieties, struggles, sense of achievement, symbols of recognition, informal cliques, outlook on life, perceptions, and many other intangibles. We can do a better job of understanding, assessing, and motivating middle managers once we know better what makes them tick.

6. An opportunity for all to share in the affairs of the business, the matter of promotability or nonpromotability notwithstanding.

7. Re-examination of our business organizations to see where we can reinforce middle managers' knowledge, technical competence, and experience with clear organizational authority that is commensurate with their responsibilities as managers.

This is not a plea for the middle manager who does not measure up after a reasonable period in which there are plenty of opportunities. The case before us is the middle manager who, promotable or nonpromotable, turns in a satisfactory performance on the job daily. He can probably improve his performance to a considerable extent and still has some 15 to 20 years ahead in productive and valuable service to the company.

Judging from recent evidence, many companies do not know or fully appreciate the quality potential to be tapped from middle management. The Graduate School of Business Administration of the University of California at Los Angeles surveyed some 30 fast-growing companies in the western region and concluded that in only four did top management make good use of middle management. The Civilian Personnel Advisory Committee to the Assistant Secretary of the Army recently pointed to an Army-wide weakness in the middle management levels of its civilian personnel with large responsibilities here and abroad. It blamed this weakness largely on the emphasis given to the development of top management at one pole and first-line supervisors at the other. Keith Davis, in his recent book, *Human Relations in Business,* reports the sentiment of many middle managers as voiced by one such manager:

"We sit here all day pushing papers from top to bottom and back again . . . All the while we are left out of actual operations at the bottom and we don't take part in decisions at the top . . . We just push."

Other investigators have attributed the decline in middle management to mounting organizational controls and devices and the increasing burden of rules, procedures, systems, red tape, and elaborate channels for getting clearance, approvals, and decisions in matters over which middle managers formerly could exercise their own judgment.

A survey of some 500 middle management men and more than 1,000 foremen on "How Middle Management Feels About Its Status" points up some of the difficulties which result in this under-utilization. About 50 per cent answered "uncertain," "poor," or "only fair" when asked whether they had sufficient information or working knowledge to do the job they were expected to do; between 30 per cent and 40 per cent reported that they did not really know the limits of their authority; a similar percentage expressed doubt in regard to the boundaries of their main responsibilities. Asked whether they felt they had enough authority to carry out their responsibilities, more than 25 per cent responded, "no." The percentage of those who were uncertain whether they were really part of management approached 35 per cent. From 40 to 50 per cent reported that their understanding of company structure was not clear and from 42 per cent to 52 per cent indicated that their understanding of over-all company policies was unclear or inadequate.

What are some of the specific steps a company can take to give full recognition and a sense of participation to the middle manager?

Keep him informed of what goes on in the organization so that he can have the background to think like a manager rather than a technician.

Give him assignments that will make him stretch just a little higher but that are still within reasonable bounds of attainment; this will counteract lethargy and maintain sound standards of performance.

Encourage him to participate in professional and fraternal organizations and to be reasonably active in civic and community affairs. It is a form of self-development and will help in some measure to counteract the intensity of his anxieties in his daily job.

Take a good hard look at decision-making in the organization to see how much of it can be delegated down to middle management.

Use your management development program to provide a greater degree of advanced specialization if this is what he needs to reinforce his general management background or to be brought up to date; and provide a broader management base for him if this is what he needs to bolster his usefulness as a specialist.

Revise salary administration to provide middle management with financial incentive where the promotability slots are few and infrequent. Reinforce it with job evaluation and job enlargement to the extent possible.

Shift the middle manager from a line operating position to a staff position where his talents can be used to full advantage, if this is possible without serious morale impact on others. But avoid face-saving gimmicks such as setting up a dummy position for him.

All these steps can help to effectively counteract the destructive concept that anything short of front-office attainment is failure. We need to make it clear that achievements within the middle management level are successes of which both individuals and organizations may well be proud. If we don't, we may soon have a serious crisis in middle management. ♦

Companies that go out of their way to help their customers and dealers are helping themselves in the process . . .

Service with a Sell

By Ray Vicker

Condensed from The Wall Street Journal

In recent months, top executives of a large paint and wallpaper company have been toiling as clerks behind the counter of a small store operated by the company in a suburban shopping center outside Chicago. The store's purpose: to help United Wallpaper, Inc., get first-hand knowledge about customers' preferences and how to cater to them. The company intends to use this information to help distributors and retail sellers of its products improve recession-eroded sales.

In the first three months of this special store's existence, United executives learned some useful lessons. For one thing, they discovered that most customers aren't much interested in what goes into a can of paint but would rather know what benefits can come out of it. As a result, United is putting new emphasis on visual merchandising. A small section of a house standing in the special store, for example, illustrates the before and after effects of a rain-gutter paint.

A good many other U.S. companies are also trying new techniques of "creative selling." A few months ago, Norge division of Borg-Warner Co. sent out company trouble-shooters to help sell washing machines right next to retailers' regular salesmen. American Can Co. and Continental Can Co. are offering free laboratory assistance on canning to can-buying customers. Scott Paper Co. is offering the services of "washroom consultants" who will help a company design a washroom for free—on the theory that takers will use Scott products.

This type of corporate help is not entirely new, of course; some companies long have offered research facilities and engineering advice to prospective customers. But many newcomers are taking up the technique, and even the veterans say they're putting more emphasis on methods of subtle selling.

"All of our salesmen are doing more traveling than they ever did," reports B. A. Gustafson, vice president of Sundstrand Machine Tool Co. (Rockford, Ill.). He estimates that the company's salesmen, who are trained to "sell" cost-cutting ideas as well as machines, average 1,000 miles a week now, double their mileage a year ago.

Sundstrand, which offers its engineering and tool counseling services for nothing, doesn't always receive direct benefits from these sometimes costly efforts. But the company, like most others offering similar services,

believes the practice builds up a lot of good will that may in time be translated into better business.

UARCO, Inc., Chicago manufacturer of business forms, is pepping up its sales through the use of an office automation laboratory. This offers company officials a chance to see how their offices would function on an automated basis—before they actually invest in the equipment. The service is intended to help a customer work out a complete system, including the design and testing of forms, programing of business machines, flow of work, filing requirements, and other elements.

The laboratory was opened a year ago. Since then, 75 systems have been engineered for customers at the facility, with 70 sales resulting, the company says. Activity now is reported to be double that of last year.

Some firms are so eager for orders they have salesmen out looking for business for potential customers. This business, they hope, will result in sales for them. Williams Steel & Supply Co. of Milwaukee, for example, helps drum up warehouse steel business by locating orders for some of its steel fabricator customers. Five warehouse salesmen run down leads on building construction, metal stamping subcontracting, or any other activity that might provide business for fabricators.

"We're not a fabricator ourselves," explains Herman Williams, president of the warehouse. "We interest fabricators in bidding for the jobs, then sell them any steel needed to fill their orders."

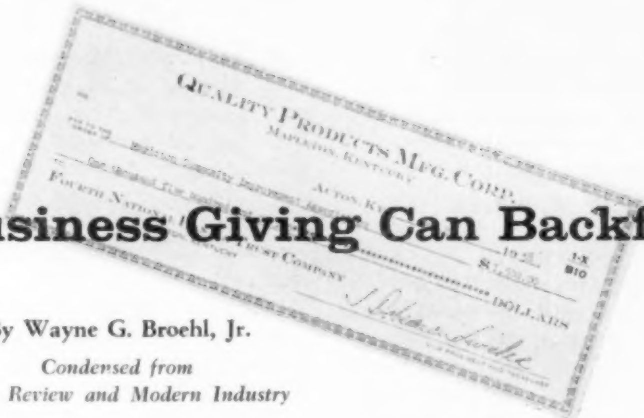
Big steel companies also go far out of their way to help customers, if it means a sale. Specialists of United States Steel Corp.'s U.S. Steel Supply Division, for instance, will study operations of customers, then provide engineering advice to improve production.

The results have been quite startling on occasion. F. A. Lazenby Co., a Baltimore machine shop, had been using hot rolled plate exclusively to produce gears and sprockets. After U.S. Steel experts recommended a more workable type of steel, shop output jumped by 33 per cent, the company says.

Mosler Safe Co., New York manufacturer of safes and bank vaults, offers its dealers the free services of top company officials when critical problems arise. Recently, a Mosler dealer in Miami found that his profit margin was shrinking despite the fact that he was doing a brisk business. The company dispatched its controller, John Hampel, from Hamilton, Ohio, to assist the dealer with his problem. An analysis of the dealership revealed that certain areas of the business were showing a loss despite big volume. On Mr. Hampel's suggestion the dealer dropped these items and soon went back into the black again. ♦

PROSPERITY is too apt to prevent us from examining our conduct; but adversity leads us to think properly of our state, and so is most beneficial to us.

—Samuel Johnson



Business Giving Can Backfire

By Wayne G. Broehl, Jr.

Condensed from
Dun's Review and Modern Industry

NEVER BEFORE has the businessman been so willing to adopt the role of full-scale "corporate citizen"—to apply the collective energies of his company to problems outside his business. Corporate giving to education, for example, is up 95 per cent over two years ago, according to a recent study by the Council for Financial Aid to Education.

On the whole, the results have been remarkably beneficial. But there is something dubious about many of these public espousals of business morality. In the businessman's headlong rush to embrace all that is implied in social responsibility, he is in danger not only of giving to excess, but also of subtly altering his own values. Two simple examples will illustrate how this can happen:

1. Mr. X is president of a medium-sized machinery-manufacturing company. He is also the majority stockholder. Noted in the past for taking a hard "dollars-and-cents" attitude toward expenditures, he was persuaded by members of his luncheon club to contribute—rather heavily—to the local college. But outsiders couldn't believe he had really changed. They looked for the "angle." Hurt by this unexpected reaction, Mr. X soon became defensive about his gift and attempted to justify both his own contribution and all corporate gifts to education at every opportunity. Unfortunately, this only magnified the problem. Now, the outsiders began to accuse him of being "pious" and "moralistic." The experience permanently soured Mr. X on the whole matter of business giving.

2. Mr. Y is chairman of the board of a large national company. Freed from the operating responsibility he had held as president, he soon found that in the "elder statesman" position of board chairman he had lost some of the prestige of being the boss. Though he realized that the operating officers were directly responsible for profit performance, he began exhorting them to take "the broad view," to be "socially conscious." Often these pronouncements failed to meet obvious requirements of sound business procedure (as he would have been the first to point

out when he was president). Soon his effectiveness diminished—his advice had become automatically suspect because of his self-righteousness.

Too frequently today, this zeal to "be good" has clouded the businessman's perspective on the external relations of his company. As a result, the concept of social responsibility stands a very real chance of being perverted through misuse, and the genuine gains in business responsibility made during the past decades lost. Here are two dangers to avoid:

• *Exceeding dollars-and-cents limitations.* Corporate giving and participation in educational and community activities have proliferated amazingly. But not all this giving and participation has been economically sound.

Management's first responsibility, after all, is to maintain a healthy company. Though corporations do not exist for the stockholder alone, his interests must come first, and short-term demands of stockholders cannot be fully subordinated to long-run profits. "In the long run," as Lord Keynes put it, "we are all dead."

This is not to say that every stockholder demand should automatically be met. In certain recent proxy contests, management has shown a heartening readiness to speak out for longer-range projects in the face of acrimonious stockholder dissent. Nevertheless, some analysts maintain that a sizable share of present-day corporate expenditures in external areas should be eliminated and paid instead in the form of more adequate dividends and lower prices. Then, each stockholder and consumer could *individually* support community and charitable activities.

Is this realistic? Many would argue that, palatable as this point of view may appear—stressing, as it does, individual responsibility—it doesn't really solve the problem. Individuals either cannot or will not measure up to existing needs, and critical areas of social welfare may therefore be neglected. Only the group activity of a large-scale organization, they maintain, can fill this gap. And this means the corporation—unless, by default, the government steps in.

This problem gets knottier still in periods of business fluctuation. When times are good, business generally expands its external activities, often on a wide scale. In doing so, it tends to set up patterns of illusory responsibility, based primarily on public association of the corporate activity with corporate responsibility for the activity. However, should business temporarily turn down, these expenditures may have to be cut back (particularly if they cannot be justified in terms of strengthening the shorter-run economic position of the company). The company is then accused of shirking its responsibility—a responsibility that, in fact, it did not have in the first place.

For the larger companies this is a particularly difficult problem. The public seems to expect better corporate citizenship from these firms than from smaller ones. Therefore, the big corporation, in assuming an external commitment, must be particularly careful to make clear to the stockholders that it cannot be blithely dropped at the first sign of a profit pinch.

• *"Do-goodism."* Let's assume, though, that corporate funds for ex-

ternal relations have been carefully allocated, meeting the legitimate needs of both the stockholders and the community. A second danger remains: seemingly inherent in doing a good deed in public is the element of self-pride. Corporate external relations must be carried out in the public eye, and most businessmen feel that legitimate public-relations values should accrue to this effort.

In this lies the hazard. Self-righteousness and sanctimoniousness have always been extremely unpopular attributes. Furthermore, they can turn an individual or a company away from honest self-appraisal. A number of today's corporations have become so pious in their espousals of good works that they are beginning to place more emphasis on corporate than on individual values. Paternalism, no matter how benevolent, is undesirable, and, unfortunately, some contemporary social responsibility amounts to just that. Consider the following situation:

The president of the dominant company in a midwestern manufacturing center, egged on by his wife, became intensely interested in problems of mental health. Not only did he personally support the mental health clinic in the town, but he also committed sizable company funds to it. Soon it became understood in the company that one could gain favor by expressing interest—in terms of time and money—in the clinic. Thus artificially stimulated, the general interest in mental health hampered the efforts of other social-welfare agencies. Worse yet, it encouraged supervisors in the firm to become amateur psychologists eager to refer employees to the clinic. A legitimate interest was thus corrupted into a 1984-style nightmare.

This case is an extreme example, but it does point up two conclusions:

First, in committing itself to any one of the many types of social responsibilities, a company must understand that it is establishing a pattern that can easily result in the assumption of long-term responsibility.

Second, self-righteousness is a particularly serious fault when practiced by individuals in positions of power. Support or criticism by top management of organizations outside the business carries with it the responsibility not to exert inordinate influence. Even if this influence is sound, there is still danger that it may get out of hand.

The American businessman, through his company, has moved far in the past decade toward assuming a full role as a corporate citizen. But has he moved too fast and too far? Has he assumed too wide a range of responsibilities outside his own firm? Is he violating his own sense of values and that of his employees? Honest answers to these questions, free of sanctimonious claptrap, are overdue. ♦

THE BEST EXECUTIVE is the one who has sense enough to pick good men to do what he wants done, and self-restraint enough to keep from meddling with them while they do it.

—Theodore Roosevelt

Machines directed by punched cards or tape are saving production time and money in a growing number of jobs . . .

Numerical Control: Production Tool with a Future

By G. S. Knopf

Condensed from The Iron Age

NUMERICALLY CONTROLLED machine tools, which are now paying off in impressive savings for the few companies using them, may be on the threshold of a bright future. In fact, one consulting firm forecasts that as many as half the machine tools sold in the 1960-63 period will be numerically controlled.

How has numerical control—which directs machinery with punched cards, punched tapes, or magnetized tapes—been performing?

Today, the aircraft industry is the largest user of numerically controlled machine tools. Every day, aircraft companies save considerable time and money in machining complex parts having pockets, flanges, tapers, contours, or grooves. These parts include turbine blades, intricate cams, templates, ribs, and dies.

For example, in machining a root rib, numerical control saves Northrop Aircraft Co. 57 per cent in tooling time and 64 per cent in machining time compared with former methods. And in producing a honeycomb die cavity, numerical control not only brings a 77 per cent saving in total tooling and machining time, but cuts lead time from 49 to 3 days.

What is perhaps numerical control's most dramatic cost saving so far was achieved by the Lockheed plant at Marietta, Ga., which machined 600 cams for $35,000 less than previous methods would have cost. Moreover, lead time was cut from ten weeks to one.

Because they have gained such advantages with numerically controlled machine tools, many aircraft firms are investing capital in added equipment. One company estimates it will invest about $40 million in the next ten years to bring 75 per cent of its production machining operations under numerical control.

Although numerical control equipment is complex, the job of operating it, maintaining it, and programing parts is relatively simple. Bendix Aviation's Industrial Controls Section has a training program for builders and users of numerically controlled machine tools. In one week, tool engineers learn how to put dimensional data and manufacturing information onto a process sheet in correct numerical form. Another important part of the program teaches maintenance men how to keep numerically controlled machines at top efficiency. Built-in preventive maintenance devices have greatly simplified this work; downtime on numerically controlled tools is now comparable with that on conventional machines.

For companies who want to use

numerical control without investing in programing equipment, there are commercial tape-preparation centers offering this service. Many aircraft firms will also prepare tapes for other users.

Outside the aircraft industry, one of the big question marks about the future use of numerically controlled machine tools centers on their cost. Control makers feel that when potential users learn to evaluate these systems properly they'll find them competitive with conventional methods. Conceivably, savings achieved through the use of numerical control can pay for an installation in a few years.

In comparing the cost of numerical control with that of other machining techniques, all factors should be considered. With a tracer control system, for example, the cost of service equipment, machine tools, and labor for designing and making templates should be included as part of the total, just as service and programing equipment are part of the numerical control cost.

Based on such over-all comparisons, Bendix experience shows that, in many cases, the cost of large tape-controlled machines will be less than that of the same machines with 1:1 tracer control ratios.

One prospect for simplifying numerical control involves standardization of tape format. Builders of machine tools and control systems and users of numerically controlled equipment are cooperating to achieve this goal. There will probably be at least two standards: one for punched tape and another for magnetic tape systems. At present, some systems use punched cards to provide either positioning or continuous contouring information. Any of this information can easily be put on rolls of punched tape.

Many future uses for numerically controlled machine tools will develop as their potential benefits become more widely understood and accepted. For example, numerical control offers definite advantages to the automotive, aircraft engine, machine tool, earth-moving equipment, glass, marine, and powdered metal industries.

The immediate prospect for numerical control in the automotive industry appears to be for making tools and dies rather than production parts. It's estimated that a new automobile design may need as many as 50,000 templates. The experience of aircraft firms in cutting template-manufacturing costs and lead times by factors of five indicate that the automotive industry could do the same.

It's unlikely that tape control systems will ever become standard attachments on all machine tools. But jobs for machines so equipped will multiply, and the incentive will not always be purely economic in nature. Such factors as simplified design changes, shorter lead times, less tool-storage space, less operator fatigue, and increased safety may spark many of these new uses. ♦

ALL MANKIND is divided into three classes: those that are immovable, those that are movable, and those that move.

—Benjamin Franklin

The Capital Goods Outlook

By Charles E. Silberman and Sanford S. Parker

Condensed from Fortune

GOOD NEWS is beginning to break through the gloom that overhung the capital-goods market for a full 12 months. U.S. Steel is selling a $300-million issue of debentures (one of the largest debt offerings ever made by an industrial corporation) to finance new plant and equipment. Union Carbide's Linde Co. division has announced plans to build a tonnage oxygen plant in Pittsburgh to exploit the steel industry's rapidly growing use of oxygen. Natural-gas utilities are planning a record $1.9 billion of capital outlays this year and only slightly less in 1959, according to the annual survey of the American Gas Association. A recent survey of food chains and independent grocers showed that food retailers expect to build more stores this year than ever before.

This is heartening news indeed, for if the decline in capital spending is checked, it means that capital goods are not going to pull the whole economy into a sickening downward spiral, as some observers feared only a few months ago. More than that, it would mean that capital goods, though not leading the U.S. into a new boom, would at least not block a recovery originating elsewhere in the economy. A business upturn has already started as a result of the rapid expansion of government spending for defense, public works, and other programs; increased home building and car sales; and the slackening in inventory liquidation. And the recovery in the economy as a whole is likely to stimulate some slight upturn in capital goods in 1959, from an annual rate of about $40 billion in the fourth quarter of this year to perhaps $43 billion at the end of 1959.

The gross national product is likely to jump $50 billion in the next year and a half, to a rate of $470 billion in the fourth quarter of 1959. As output recovers, so too will profits,

even if profit margins stay below last year's level. Cash flow will be up even more, since corporations are increasing their annual rate of depreciation charges by nearly $2 billion this year—to an annual rate of nearly $32 billion.

Corporations will have the resources, therefore, with which to finance a substantial recovery in capital outlays, and indeed 49 per cent of the manufacturing firms answering a special *Fortune* survey in late April reported that they would increase their spending next year if their sales and profits improved. But 51 per cent said they would not raise their capital-goods purchases next year even if sales and profits were rising in the meantime.

Whether business does in fact spend more for capital goods next year, of course, depends less on how much firms can "afford" than on how much they believe they "need." And this brings us to the widespread fear that, despite a year of cutbacks in new capital outlays, business is still overstocked with capital goods.

Actually, the outlook for capital expenditures is a good deal more favorable than the still sluggish operating rates of many industries might imply. The relation between capacity and capital expenditures is a complex one, more complex than much of the recent "overcapacity" talk implies.

Unused capacity, for one thing, is not necessarily excess capacity. Most U.S. corporations (in contrast to European) like to have sufficient unused capacity on hand to meet peak seasonal and cyclical demands for their products without impairing quality or stretching out delivery time unduly. They place much greater emphasis, therefore, on the relation between capacity and the highest level of output in the recent past than on the relation between capacity and current output. What is excess capacity for an entire industry, moreover, may not be excess for a particular firm, either because of its superior location, better product quality, or superior salesmanship.

Far more important, competition is constantly destroying old capital and requiring new capital, regardless of the existence of overcapacity. The competition that really counts, as Joseph Schumpeter wrote, is "the competition from the new commodity, the new technology, the new source of supply, the new type of organization—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms, but at their foundations and their very lives." This "perennial gale of creative destruction," Schumpeter argued, "is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in."

The point is that in the U.S. capital goods are not bought by some state planning agency seeking to maintain some theoretically desirable ratio between capacity and output. They are bought by thousands of separate firms struggling to survive, and to maximize their long-run profitability in the face of changes of every sort: new products, new processes, improved products, new geographical markets, intrusion of firms from other parts of

the country or other industries into established markets, and so on. And the postwar has seen more changes of this kind than ever before, partly because the growth of "discretionary income" has vastly widened the choices consumers can exercise and thus kept the markets for final purchases in constant flux, and partly because an enormous expansion in research is steadily bringing in new products and processes.

It is precisely when an industry is plagued by excess capacity, moreover, that technological innovation may be speeded up and the competitive pressures to replace plant and equipment become most intense. There is no need—and relatively little incentive—to replace submarginal facilities during a boom. But when firms no longer can sell everything they can turn out, the ones with modern, low-cost, high-quality facilities are the ones that get the business. That is why U.S. Steel, the industry's leader in cost cutting, is increasing its capital appropriations in the face of heavy excess capacity.

And business is devoting more resources to technological research than ever before. The nation's total research budget this year will exceed $10 billion—more than $8 billion of it administered by business corporations, the rest by government, universities, and research foundations. The ratio of R&D to gross national product is thirteen times greater today than in 1930. Research and development expenditures by business have more than doubled just since 1953, in fact, and this year are running about 15 per cent higher than in 1957.

It is true, of course, that much of the expanding R&D spending is for defense. Of the $8.3 billion that industry is spending this year (half of it government financed), $4.7 billion, or 56 per cent, represents research by the two chief defense industries, aircraft and electrical and electronic equipment.

The rise in research and development expenditures amounts to no less than the emergence, in Professor Sumner Slichter's phrase, of a new "industry of discovery"—an industry whose product is the creation of investment opportunities through the development of new products and new production processes. Even the defense manufacturers' R&D effort will have many detailed applications in civilian products and production methods. It also has this broad application: business is learning more and more about the general uses of research, more and more about the handling of an enormous research effort.

All this explains why capital expenditures probably will turn up even before existing capacity is totally employed—and why they have not collapsed entirely this year in the face of mounting excess capacity. It does not, of course, tell how big the market is likely to be.

The capital-goods outlook now is not quite so favorable as it was at the comparable moment in 1954. Then, after a much milder dip, and with much less excess capacity than now exists, capital expenditures recovered promptly and indeed roared back to a new record rate within a year. But it is probable, nonetheless, that despite current excess capacity, a

recovery in capital goods will get under way next year, continuing into 1960. And such a recovery might reach a new record level in 1960.

The reason is that productivity almost certainly will pick up sharply, as it did in 1955—although not enough to restore the postwar average. If, for example, output per man-hour rose 8 to 10 per cent in two years, which seems eminently reasonable, G.N.P. could rise not just to $470 billion by the end of 1959 but to $490 billion or even $500 billion by mid-1960, before reaching full employment. At current levels of capital expenditures, this, in turn, would mean that the capital-output index would fall sharply from 107 at present to below 97—the level at which the 1955-57 capital-goods boom was triggered.

To say that a recovery in capital goods is probable, of course, does not guarantee that it will take place. How much firms actually spend depends on the state of technology, competition, and finances peculiar to each industry, and on the energy and ingenuity capital-goods producers display. But the fact that a major capital-goods recovery is possible, at a time when responsible men argue that there can be no upturn for capital goods for quite a while, is significant and exciting news. ◆

When Good Competitors Get Together

THE GROWING SIZE and complexity of some of the research and development jobs now being parceled out by the Defense Department are breeding what almost amounts to a new form of business enterprise—team contracting. Companies with a variety of capabilities are putting their heads together for the sake of submitting a single bid on a big defense contract.

This type of corporate cooperation has advantages for both big and small firms. It gives the small company with one particular skill a chance to get in on a big contract that calls for many skills. And it permits a large company to participate in many mammoth research efforts, any one of which could easily soak up all its scientific resources if it was taken on singlehandedly. The method seems certain to spread as businessmen become more familiar with its benefits—and with its mechanics.

However, team contracting does have its disadvantages. It occasionally begets organizational complexity and red tape. With so many "cooks," there is the communications problem of keeping each team member informed of what the others are doing. "But in actual practice, we have no more problems than a large company has in spreading work of this sort out in its own house," says Benjamin Parzen, engineering vice president of Olympic Radio & Television, Inc., a company that is now involved in a team project.

—Ronald J. Ostrow in *The Wall Street Journal* 8/18/58

Without reducing benefits, some companies are finding means of cutting costs in their pension plans . . .

5 ways to pare pension costs

By Meyer M. Goldstein

Condensed from The Journal of Commerce

CAN THE COST of pensions and other employee benefits be reduced without reducing the benefits themselves? A number of alert companies have proved that the answer can be yes in many cases. Here are some of the methods they have used:

1. *Suspending contributions to reduce outlay.* One method of reducing employer outlay without reducing employee benefits is to reduce or suspend employer contributions to the pension plan temporarily, until the economic storm is over.

This step was taken recently by U. S. Steel. Over the years, the company had accumulated sufficient actuarial reserves and tax-deductible "fat" to permit complete suspension of any contributions for three or more lean years without necessarily disturbing the actuarial or tax soundness of the plan—or prejudicing in any way the payment of full pension benefits on schedule as they matured.

2. *Realizing capital gains to reduce costs.* In spite of the partial reduction in market values many companies with self-administered trusteed pension funds have in these funds substantial unrealized profits on their common stock holdings, which are valued at cost regardless of market values.

Some companies have sold a portion of their common stocks and used the capital gains in lieu of a current contribution. Such capital gains, of course, are tax-free to qualified pension funds.

3. *Increasing yield to reduce costs.* One of the most effective ways of decreasing employer costs is to increase the effective yield of investments. The magic of compound interest is very important to the ultimate costs of pension plans. For example, if a pension fund could increase its earned interest from 2½ to 3 per cent, costs of a typical pension plan would be reduced 10 per cent. An increase in interest to 3½ per cent would reduce costs 20 per cent.

Some companies are accomplishing a two-way cost reduction by investing a portion of their pension funds in employer securities. First, this provides the fund with a higher yield investment: e.g., 5 or 6 per cent on

company preferred stock as against 4 per cent on miscellaneous securities. Second, the company is provided with a source of long-term capital that may be invested in modern plant and equipment to lower production costs and improve its competitive and profit positions.

Many companies with funding methods restricted to fixed-dollar investments such as bonds and mortgages have amended their pension plans to permit a more diversified portfolio, with part of the fund invested in equities. In this way they hope the fund will be able to meet future increases in pension costs and cope with the inflationary erosion of fixed pension dollars.

4. *Changing the funding method to reduce outlay.* Some companies, for example, have changed their funding method from an annual fixed cost commitment—such as annual level premiums for an individual policy pension plan—to flexible funding. Such a change gives the employer the freedom to reduce or suspend payments in bad years and make higher—but fully tax deductible—payments in subsequent good years. This greater flexibility can reduce outlay in bad business years—and may actually reduce costs if corporate income tax rates are relatively higher in good years.

5. *Using the career-average method to reduce outlay.* Many companies using pension plans in which benefits are based on the employee's earnings for his last five years are finding that because of inflation their pension costs are increasing at a time of shrinking profits. Some of these companies have amended their plans to base pension benefits on career average. Although this could reduce ultimate pension benefits, they can be adjusted periodically to inflationary increases. The increased costs of these adjustments can be concentrated in high-profit years. ♦

Second-Quarter Profits Hold Their Own

HALF-YEAR CORPORATE REPORTS indicate that the decline in profits was checked in the second quarter. Reports issued by 809 corporations show combined net income after taxes of $2,233,000,000 in the second quarter, a decrease of 28 per cent from the second quarter of 1957 but practically unchanged from the first quarter of 1958.

In manufacturing, the total net income of 592 companies in the second quarter was down 34 per cent from a year ago, but about the same as the first quarter of 1958. A number of industry groups registered improvement this year in the second quarter, including tires, paper, chemicals, cement-glass-stone, steel, electrical equipment, and machinery. Exceptions to the general pattern of gains over the first quarter include the petroleum and the major automobile companies. Excluding those two important industry groups, quarterly net income this year of the other manufacturing companies reporting rose 16 per cent.

—*First National City Bank Monthly Letter* 8/58

TODAY'S CONSUMER:
Ready and Waiting

Condensed from Business Week

After skidding sharply during the second half of 1957, consumer confidence has held steady in the first half of this year. According to the latest survey by the Survey Research Center of the University of Michigan, the index of consumer confidence stands at 98.4, an insignificant four-tenths of a point below what it was in December. At its peak at the beginning of 1957 the index was slightly over 110.

To be sure, anyone hoping for a great burst of consumer buying in the next few months will find little in the new data to shout about. But considering what many families—and the economy—have lived through in recent months, Dr. George Katona, director of the Center, finds definite reassurance in the latest survey results. They suggest to him that consumer demand for durable goods has reached the limit of its descent.

At the same time, he warns that whatever confidence the consumer is beginning to feel about better times ahead is a "frail blossom." If the realities of the next months fall short of consumers' hopes, that frail blossom will almost certainly wither.

The new figures convey a strong impression that the average U.S. family faces up to today's situation with a rather remarkable degree of realism. The consumer doesn't feel too good, but he hasn't panicked. So far he has kept his balance on a seesaw of economic ups and downs.

Best of all, from the marketing man's standpoint, the survey indicates that the consumer has not lost the will to buy durable goods. But he hedges this urge with plenty of ifs and maybes. He as much as says that how well he comes through depends on how well business—or the government—meets his conditions.

When the consumers look at their own financial status, the number who feel better off than they felt a year ago has dropped considerably—from

28 per cent to 23 per cent. There is only a slight increase in the proportion who expect to be better off a year from now. In the latest survey (covering 1,500 families), 30 per cent think they will be better off in another 12 months, against 28 per cent who thought so last December. The important market families with incomes of $5,000 and over were even less hopeful on this score.

Fewer people, too, look for prosperity for the country as a whole during the next 12 months. Only 44 per cent expressed optimism on this count against 54 per cent in the previous survey.

Yet the signs that the consumer is far from wallowing in gloom are clear. While his attitude about his own financial prospects remain unchanged, the percentage who expect the country as a whole to be better off a year from now has just about doubled; 32 per cent expressed hopes on this count against only 16 per cent who were optimistic last time. And particularly significant is the fact that the $5,000-and-up group showed the greatest confidence; there, 42 per cent think the country will be doing better 12 months from now. Their optimism is based on the feeling that the economy has already hit bottom and that there are signs of an upturn.

More consumers than before are positive that a big depression just isn't in the cards. A substantial majority of 69 per cent said that a repetition of the 1930's can't or won't happen again, against 56 per cent who felt that secure a year ago. Many felt the government would take steps to stave off a major disaster. Some 77 per cent thought public works would help; 61 per cent voted for tax cuts; 51 per cent for more defense spending; and 53 per cent for lower interest rates.

Marketers can find comfort in the fact that a slightly greater proportion of consumers feel now is a good time to buy. For all families, the change is hardly measurable—41 per cent against 39 per cent last winter. But among the $5,000-plus group, some 51 per cent now feel it's a good time to buy large household items; last winter, only 45 per cent of this group thought so.

Apparently, a growing conviction that prices will head downward explains much of this attitude. Consumers who expect price rises over the next year dropped sharply from 44 per cent in late 1957 to 28 per cent now. With their own incomes pinched by taxes and higher living costs, the prospect of lower prices becomes a positive, rather than a negative factor. Most people, too, concede that easier financing makes the present a good time to buy a house.

Even though definite intentions to buy were down, the wobbly market that answered "We might buy," or "There's a possibility" increased. And after a steady decline in intentions to buy cars, there was no further drop in June.

The researchers wound up this survey with one positive conviction. Today's consumer is holding back because he feels pinched, not because he is fed to the teeth with goods. "Desires and felt needs for durable goods, homes, and additions or repairs to homes are today almost as frequent as a few years ago," their

summary reports. About 70 per cent of the families questioned named at least one large outlay they would like to make—and the 30 per cent who expressed no wants has not increased during the recession. There is still a good demand even for the older appliances, Katona says.

What do consumers want? Home additions and improvements rated the top place on the list. A second car came next, and a new house rated third.

What happens to prices in the next months promises to be crucial. Consumers expressed far less concern about inflation than they did a year ago. They are convinced that in a period of oversupply prices must go down. If that doesn't happen, consumers are likely to keep sitting on their hands. ♦

Avoiding the pitfalls of
OPERATIONS RESEARCH

By Herbert J. H. Roy

Condensed from Harvard Business Review

In these days of increasingly complex management problems, operations research is gaining deserved recognition as an effective method for describing, predicting, and controlling business activities. However, OR presents many pitfalls that can destroy its usefulness to a company inexperienced in its application. Before plunging into an OR project, management should carefully evaluate the method's possibilities for the firm and the human problems involved. Here are some of the approaches that our company, General Petroleum Corporation, has found useful in making the most of operations research.

To begin with, does the problem lend itself to OR treatment? A poorly conceived OR project can fall flat on its face. One example is the problem which is just too simple to warrant use of OR approaches. The corporation in effect uses a precision-tooled scalpel to peel potatoes. Another example is the problem that does not lend itself to solution by *existing* OR techniques. Here the corporation unwittingly launches itself on basic research — an expensive experience, especially if it is looking for a practical answer.

How do you decide whether a problem does lend itself to OR treatment? To use OR effectively, we have found it is necessary to have: (1) Data which can be studied and measured quantitatively; (2) the opportunity to decide between different courses of action; and (3) ways to evaluate results readily.

In addition, it is important to consider the intrinsic nature of the situation to be analyzed. Here are the most pertinent questions:

- Are the problems big ones? In our case, problems were big if they occurred in activities where many dollars were being spent.
- Are the problems complex? For example, are there many interdependent variables which are difficult to evaluate?
- Are the problems current and pressing? For instance, in connection with a warehousing problem we had an immediate need to find increased space to store goods, hence good reason to want to take the most effective approach.
- Would OR methods be less expensive and more accurate than the present methods of finding answers? There is always the possibility that the same amount of time spent using traditional methods can produce an answer as good as that obtainable by OR.

The initial identification and defining of a problem should be done by people within the company. This is better than hiring outside consultants and simply telling them, for instance, "We have a problem in delivery; you go ahead and tell us

what the problem is." The danger in leaving problem definition to the specialists is that the company will lose the cooperation of its people. Also, the cost of a project will go up because of the time outside consultants need to "get their feet wet."

Gaining the agreement of operating people in the problem area that OR methods should be used is a problem that must be carefully handled. A blunt declaration by some staff research group that "the warehouse has a problem in inventory control which calls for an OR approach" can make the warehouse people think that they have been found wanting. What happens? A series of entirely human reactions is touched off — extreme attempts to justify present methods, suspicion of any new ideas, premature and hopeful discrediting of new techniques, foot dragging, and so forth. Thus, it is vitally important to set the stage for a cooperative, enthusiastic attitude on the part of the company people involved in the activity. In the several projects we have worked on, we have found that the closer the operating group can be tied into the consideration of a new method from the very beginning, the better the payoff in terms of cooperation, interest, and enthusiasm.

What about the selection of an outside consultant? Here are some of the important qualifications:

If the company is interested in practical rather than in basic research, the consultants should be people whose interests in OR lie in the applied side of the science, in contrast to people whose interests lie largely in pure research.

The consultants should have experience with the particular type of problem involved, or at least some transferable experience.

The consultants should recognize their responsibilities for communicating with clients, for getting ideas across to nontechnical listeners.

The consultants should evidence an attitude which will win people's cooperation in giving facts and viewpoints.

The consultants should be people whose philosophies of business are not directly antithetical to your own.

Company people can be invaluable on the OR task force. For one thing, a company man "in the act" makes it easier to establish and maintain good contacts between OR consultants and the persons involved in the study. Then, too, company people on the task force can reduce the cost of gathering and analyzing information because they know more readily where to get data and can help in interpreting applicability of data to the problem at hand. In addition, company people can learn OR techniques from the consultants. Such training can provide a nucleus for an "in-company" OR group.

Finally, when a program resulting from an OR study is put into effect, there is a continuing need to answer questions, settle points of procedure, interpret policy, and so forth. If there are no company people available who are completely familiar with the background of the study and the thinking that evolved, it will be necessary repeatedly to call back the consultants—who by this time may be working on other projects. Delays, increased consulting fees, and incon-

veniences—these are only some of the probable losses.

It is important that the men in the activity being studied participate in the project from the very beginning. Specifically, this means designating people who know day-to-day operating conditions and who will be available to the task force in gathering and analyzing data. It also means alerting key people in the activity to the importance of devoting time to discussions with the task force. Spelling out all the conditions leading to a decision requires repeated conversations with operating managers, at which time a great deal of probing into the reasons for specific actions is done.

Before it launches the OR study, management should set up certain "ground rules" regarding the activities of the task force:

(1) Somebody must be the leader. If management lacks experience with OR methods, the outside consultant may be a logical choice. He should, of course, report to a designated company executive, preferably one who has a general interest in the use of consultants' services. If the firm has its own OR group, the head or senior man in this group would be the logical choice. In any event, expert leadership is most valuable in settling differences of opinion that inevitably come up (often in connection with procedure) whenever people of varying backgrounds, interests, and attitudes work closely together.

(2) The problem should be broken down into segments so that one phase can be studied at a time. This gives the task force an intermediate target. Taking a reasonable bite at a time makes for sharper focusing of attention and gives the task force a sense of accomplishment. It also provides flexibility in scheduling the next phases of work.

(3) Records should be kept of instructions given by task force members to operating people. Inevitably, members of the task force will be working in different geographical areas. As new situations come up, viewpoints on procedure will be crystallized in instructions.

(4) There should be agreed "cut-off" points in the development stage —points where, for the time being, no further changes will be made. While more thinking on any subject can produce some improvements, the necessity of meeting schedules should be a practical limitation.

Obviously, management people and the consultants must understand one another if there is to be an effective exchange of ideas. The words used by business managers and the words used by scientists engaged in OR work are, however, different. The responsibility for bringing about understanding despite these differences must be shared by both groups of people.

Management people can do their share by making themselves available for discussions with the OR task force (this is in contrast to being too busy, or feeling that the subject is too technical, or feeling that, because this is a research project, all other day-to-day problems ought to have a standing priority).

To help in communication we have appointed a company man at the managerial level to take on the additional duty of acting as liaison

Market Research Goes International

Condensed from Printers' Ink

STEADILY INCREASING competition in international markets is forcing U.S. companies to devote some hard thought to the special problems involved in finding out what overseas consumers want.

With U.S. export figures almost doubled since 1950, hundreds of branch plants opening up abroad, and advertising agencies developing into worldwide syndicates, more and more money is being poured into research activities overseas. Yet foreign market research, the National Industrial Conference Board report estimates, is "now at about the same stage that domestic marketing research reached a quarter century ago." The major export industries have paid careful attention to economic analyses of foreign buying potential. But consumer research in product acceptance and advertising effectiveness is still largely ignored by almost all overseas marketers and their advertising agencies.

What accounts for this is partly a matter of catching up with booming sales operations, partly a lack of pressure to find out what sells in countries where almost anything American-made is accepted. On the negative side of the picture, however, is the difficulty of conducting research in many areas—and the smaller return of useful information where even population statistics are often just rough estimates.

Some observers are highly critical of current foreign research efforts. Harry Q. M. Clawson, assistant director of Overseas Business Services, a McGraw-Hill unit, says of most companies: "Generally their studies are limited in scope to such questions as the share of the market that the company holds and the statistical size of the existing market." The successful foreign marketer, Clawson points out, "wants to know 'why,' for that is the information he is going to use to create demand."

Until recently, demand was assumed to be nothing less than a hungry appetite for American goods—on the part of those in the relatively small classes abroad that could afford them. But with the rapid in-

crease of mass discretionary spending power in many areas, and with the opening of greater trade possibilities through such developments as the Common Market in Europe, demand has not only increased but has become more selective. As customers in the more developed countries learn the art of consumership, as foreign media expand to carry more advertising of American-made items, and as stores offer broader choices of imported brands, research in foreign markets becomes as complex and necessary as it is at home.

Though some countries are developing mass consumer markets much like those in the U.S., the differences are important enough to create special problems for overseas research. As A. C. Nielsen, who claims the world's largest marketing research organization, warned recently: "Be on your guard against the underlying impact of custom, tradition, and racial and religious differences."

Among the considerations that are frequently overlooked or not sufficiently provided for, these stand out: differences in the connotation of words used in advertising and on labels; low purchasing power; deeply entrenched preferences; differences in the importance of media; varying consumer attitudes toward the relationship between price and quality; differences in trade channels and profit margins; and the need to pay attention to the various government and trade regulations of foreign countries.

Since researchers must know the local scene intimately, there's a problem in recruiting personnel who are at home both in research and in the foreign market to be studied. Most U.S. researchers have had little experience in foreign countries, and only a few of these countries stress the social sciences strongly enough to provide local research personnel. Not all marketing men agree on the seriousness of this problem, however. Victor P. Buell, manager of The Hoover Co.'s marketing division, says that management must usually turn to its domestic research men. On the other hand, Leo Bogart, international research director for the McCann-Erickson ad agency, finds there's no hard-and-fast line between research as it's done abroad and research in the U.S.

Bogart feels that researchers in Western Europe have about the same range of ability as those in the U.S., and McCann maintains its own research facilities in that area. Even in countries where research is not so well developed, McCann can hire surveys from numerous independent local research firms or international research networks. Asiatic countries, such as India and Japan, have a solid background in opinion surveys, British commonwealth nations have inherited the American-British research pattern, and most Latin-American countries are building up good research facilities through extensive trade with the U.S.

In fact, the number of research agencies abroad is surprisingly substantial. Not only do international advertising agencies like Grant, McCann-Erickson, and J. Walter Thompson have research groups at their far-flung offices, but such export advertising specialists as Robert Otto and Gotham-Vladimir hire work at

regional offices. International research firms—Stuart Rice, A. C. Nielsen, Nowland & Co., First Research Corp., Felix Associates, Erdos and Morgan, Inter-American Research Associates, George Gallup—supply a major share of the overseas studies for U.S. companies.

One of the most difficult problems to solve in getting accurate consumer responses abroad is the language barrier. Even when the interviewers are recruited from the local population, there are often few research tabulators and interpreters who have full command of the native tongue. Responses must then be translated into terms that may not accurately convey the original meaning.

To overcome the problems of semantics—and also to minimize the hesitation of Italian respondents to speak freely in their criticism of a company and its services—Overseas Business Services recently adopted a graphic technique. Eight questions were asked about the company and its competitors. Only the final question called for a verbal response. The others took the form of simple scales on which the respondent was asked to draw a mark at the point that most nearly expressed his opinion.

When the results were analyzed in New York, it was possible to lay a template marking device on the scale and record the intensity of opinion, without relying on translators, dictionaries, or interpretations. The results can even be expressed mathematically to show what percentage of respondents hold a certain opinion, and can also be graphed to form a profile of opinion.

As foreign markets become more important to U.S. companies, the use of sophisticated market research techniques is on the increase. Motivation research is being practiced in Europe by skilled psychologists, consumer panels have been started by International Research Associates in Brazil, J. Walter Thompson is now doing copy-testing in remote regions of Colombia. Market research is really going international. ♦

U.S. Dollars Still Heading Overseas

AMERICANS ADDED ABOUT $4,000,000,000 to their foreign investments in 1957 and about $1,750,000,000 in the first half of this year, according to the Commerce Department. Although direct investments abroad during the first half of 1958 were down from the first half of 1957, sales of foreign securities to Americans were at a new high of more than $700,000,000.

Of last year's addition to overseas investments, about $3,000,000,000 went to foreign subsidiaries and branches of United States companies. The bulk of the growth represented increased investments by the petroleum industry. Investments in Latin America made up 40 per cent of the total of overseas investments, rising to $11,000,000,000.

Earnings on United States investments abroad rose to $3,700,000,000 in 1957, up nearly $300,000,000 over 1956.

—*The New York Times* 9/21/58

Many aspects of plant site selection should be obvious, but they're often overlooked. Here are some things to look for . . .

Before You Build Your Plant . .

By A. Carl Stelling

Condensed from Management Methods

No management looking for a new plant site is likely to overlook such important factors as markets, raw materials, labor and power availability, and transportation. But far too many managements fail to fully investigate the equally important physical aspects of the site itself, and for some this turns out to be an expensive oversight. A tract of land may look good upon superficial examination, but unless it is thoroughly and expertly analyzed it can hold huge hidden costs.

For example, the president of an eastern food processing company personally selected the site for a new warehouse. It was not until the first winter that he realized his mistake: the site subjected the building to an extreme north exposure. Heating bills were high and snow removal costs far exceeded estimates. The president realized with dismay that the problem would be a recurring one.

The variables in industrial site selection are too numerous for a rigid formula or easy rule of thumb. There are, however, some guideposts that can be followed:

It's a good idea to make your site inspection on a rainy day. Large areas of standing water indicate that the soil is poor and that subsurface drainage problems can be expected. Drainage can involve major site-development costs, so avoid a site that is a natural low point. Look, instead, for a site that has a slightly convex surface, with the high point where you want to build. This surface will direct storm water away from the building.

Be sure that adjacent properties will not be damaged by storm water run-off resulting from your site development. Adequate provision for storm sewers, easements across adjacent property, and careful grading will avoid many problems.

Study the needs of the community in terms of storm sewers, sanitary sewers, roads, and utilities adjacent to the site. Often an industry can both achieve its own purpose and generate extensive good will by carefully coordinating plans for a storm sewer within its site so that it will also take care of drainage from a town road, for example.

Don't be hasty in rejecting a wooded site. Compare its price, plus your cost of clearing, with that of comparable open acreage. Wooded areas generally experience less surface water run-off, and the woods can

Management Methods (June, 1958), © 1958 by Management Magazines, Inc.

often be advantageously used to screen adjoining properties. The wooded site—if sound in other respects—may save you money.

Be wary of large rock outcroppings or high knolls. They may indicate a rocky subsurface, which would add greatly to your excavation and foundation costs. The cost of improving "bargain land," such as swamps and rocky hillsides, may outweigh the savings. Consider your *total* cost for acquisition and development. There is often a good reason why large areas of land remain undeveloped in a growing community.

It is a good idea, before you buy, to look *over* a site literally. Check the prevailing winds and make sure the site is not subject to annoying odors. If your own operation produces such odors, determine whether or not your smoke and odor control measures are adequate. If not, you may be faced with a public relations problem.

An important factor to consider in evaluating the site is the amount of *usable* acreage it offers for development. If your operation requires access to water, power, or transportation facilities, for instance, you may find that the purchase of easements or rights of way will save the cost of buying considerable "dead" acreage. Remember, however, that your business may continue to grow, and the site should provide room for such growth without need for further expensive relocation in the near future.

To the trained eye, the surface of a site may indicate a great deal about what lies below. For an industrialist about to make a major capital investment, however, clues are not always enough. To predict his construction costs accurately, he must know the subsurface facts.

Test borings are most commonly used to get these facts. These borings show graphically where rock (if any) is located, whether the groundwater table is low or high, whether the soil will drain easily, and whether there is sufficient topsoil to stabilize the ground surface after construction. They provide, in effect, a cross section of the property.

Saving the cost of test borings, even when a site appears to be perfect on the surface, is risking dollars to save pennies. Many construction budgets have been strained by costly errors which borings could have prevented, and, on the other hand, borings have frequently led to savings of many times their cost.

For example, an industrial warehousing organization in the South was recently seeking a site for a highly profitable unit. The only suitable location was a flat, swampy site. Because of the swamp conditions, general opinion was that subsurface drainage costs would be prohibitive and that the project would have to be abandoned. Before that was done, however, a site engineer took a series of test borings. These showed that the swamp conditions were caused by a clay barrier just below the surface. With this information, the engineer proposed a simple form of surface drainage at a substantial saving over the previous estimate. On this basis, the company purchased the site. Drainage and construction costs fell within the predicted ranges, and the unit was quickly placed into successful operation. ♦

Are Sales Meetings a Waste of Time?

Condensed from The American Salesman

THERE ARE JUST TWO WAYS to attend a sales meeting — convinced that it's a waste of time or determined to make it pay off. The funny thing is, whichever way you orient yourself, that's the way it turns out!"

This attitude toward sales meetings was expressed by an experienced building-material salesman, one of the many salesmen and sales managers interviewed recently by *The American Salesman* on this subject. Although a good number of respondents agreed with him, there was vigorous dissent also. To many a salesman, the sales meeting is a time-waster, and time is his most precious commodity. He considers the speeches soporific, is insulted by the often greatly oversimplified reports, and finds the pep talks as boringly familiar as a politician's promises.

Nor were all the sales managers in the survey convinced that the sales meeting is worthwhile. But many veterans, both in selling and in sales management, claim that, while sales meetings are only as good as the preparations and the participants make them, a wide-awake salesman can get some return from even the dullest meeting.

As one salesman put it: "For a long time, I thought the sales meeting was simply an expensive, smoky get-together. Based on my past income, I figured it was costing me \$5 an hour to attend. I couldn't afford the loss, so I decided to make it pay. Once I made up my mind to get something worthwhile from the meeting, I latched on to two ideas that have been directly responsible for half a dozen of my biggest sales. Now, based on my current income, those meetings are costing me over \$8 an hour and they're a bargain."

The president of a nationally known liquor company believes the sales meeting is an important necessity. "How else can we be sure we are getting through to the men with information on new products, prices, up-to-date promotion, and distribution techniques? And how can we know if the company policy is clear to the

men or what the problems are in the field, if we don't have a face-to-face discussion once in a while?"

On the other side of the fence is the salesman for a soft-drink manufacturer who complains, "Our sales meetings are a waste of time. We get together every six weeks to swap gossip and a few dubious stories. These pep rallies are interspersed with some marketing and product information that could better be covered in a well thought-out four-page bulletin."

The branch manager of a grain processing firm finds himself in agreement. "We haven't had a local sales meeting in two years," he reports, "and for some good reasons. First of all, each man calls in three times a day. We hash out any problems on the spot. Secondly, the door to this office is always open. Thirdly, I make it my business to go out with my men. That kind of individual attention just about eliminates the need for meetings altogether."

Some salesmen find talks by such specialists as the company's traffic manager, advertising director, and credit manager the most rewarding part of their sales meetings. Others complain that these talks *could* be informative if they were less technical.

"I'm positive," asserts one salesman, "that what frequently passes for rapt attention when these specialists lecture to us is really glassy-eyed wonder at what the devil they're talking about."

"Sure, some of the speeches may be dull or hard to digest," says another man. "But I'd rather get the information orally at a meeting than have to spend all my evenings reading pamphlets and studying reports."

Many of the salesmen interviewed listed "training in the techniques of selling" as the most rewarding part of a sales meeting.

"Where else," asks a salesman for an electric sign company, "can you meet so many men who have had your problems—and solved them? We all have the same headaches, but I always feel better after listening to someone else's troubles or doing a little griping myself."

The district manager of an air-conditioning firm points out: "A sales meeting is only as good as the men who attend it. And the best salesmen, the real pros, know the three secrets of making it pay off: preparation, participation, application. Watch and see. It's the top men who ask questions, tell problems, take notes, try out new ideas, and report back on their results."

But one rubber goods salesman retorts, "What's the point in coming armed with questions when you're greeted with a mimeographed agenda from which no one dares depart? Bing—a review of last year's performance. Bing—an address by a vice president in charge of research. Bing—a briefing on changes in office operations. Bing—a rah rah speech on the salesman's responsibilities to the company. Ten bings later, it's 4:30—'Any questions?' If we aren't given a chance to participate, why bother getting ready to?"

From a sales manager who deplores the lack of interest shown in sales meetings comes this reply: "We've drawn up our sales meeting

outlines in self-defense. Sure, we'd prefer our men to come prepared with interesting case histories, provocative questions, and ingenious ideas. But they don't. It's up to us to keep those meetings going, in the hope that something helpful will emerge from all the talk."

"Those guys who ask the questions," complains one man, "are just trying to build themselves up, get the spotlight, show off so the sales manager will remember them. Most of the time what they bring up is irrelevant."

Among the salesmen who find pre-meeting preparation particularly valuable, these three devices are frequently mentioned.

Setting a goal: The psychological importance of making up one's mind to learn something new was cited by an impressive number of salesmen and sales managers. "I've seen men set a sales meeting on its ear simply because they refused to leave until they had at least five new ideas," is the way a district head puts it. "They keep the other men plugging away until you can almost see the bulbs flashing over everyone's head. 'The power of positive prodding,' you might call it."

A notebook: Between meetings, a salesman for an office communications system jots down random ideas, tough questions raised by prospects, etc. By meeting time, he is primed.

Arriving early: "I always try to arrive about 45 minutes before each session begins," confides one of the top salesmen for a stationery house. "While everyone is fresh and enthusiastic, I shuffle around, picking brains. I'll ask one man how tying in our merchandise with the re-opening of school went over in Pennsylvania. I'll ask another how he handled that Connecticut dealer who was beefing about our new credit policy."

"One sure way to make a sales meeting worth your while is so obvious, not one salesman in ten ever takes advantage of it," says the sales training director for a giant appliance firm. "I mean the chance it gives you to corner company big-wigs and pump them on any subject you choose. You can fire questions at the vice president in charge of engineering; ask the credit manager all about the company's new down payment policy; or get the advertising director to help you figure out a promotion campaign for that new customer." ♦

DESPITE THE RECESSION, family income rose last year. According to the Bureau of the Census, median family income was $5,000 in 1957, a gain of about $200 over the previous year. However, this increase probably represented no significant change in purchasing power for the average family, since prices also rose substantially during this period. One tenth of U.S. families had incomes of $10,000 or more, and two fifths had incomes ranging between $5,000 and $10,000. At the other end of the income scale, about 15 per cent had incomes under $2,000. The remaining 35 per cent were in the $2,000-5,000 bracket.

—*Current Population Reports* 6/58

Is the SOCIAL SECURITY SYSTEM Solvent?

By Edwin E. Witte

Condensed from Challenge

WHEN the Social Security Administration announced that benefits paid out exceeded tax collections by several hundred million dollars in the first half of the 1957 fiscal year, a number of critics gloomily proclaimed that the social security system was near bankruptcy.

But a close look at the social security system and its financing methods shows that these critics are far off the mark because they have overlooked a number of important facts. Social security tax receipts are always largest in the final months of the fiscal year, while the benefits are fairly stable month after month. For the *entire* fiscal year of 1957, disbursements for old age and survivors' insurance exceeded the tax collections set aside for this purpose by only $125 million. This difference resulted from unexpectedly large demands when women were given the choice of claiming an actuarially reduced benefit at age 62 instead of a larger benefit at 65, and when many more farmers retired than had been anticipated. In the same year, in the portion of the tax funds set aside for disability payments, there was an excess of $650 million over benefit payments and the costs of administration.

But the critics made an even more serious error by ignoring the system's reserve fund and the interest on it. The reserve fund today exceeds $23 billion, and the interest, which must be added to the fund, was over $550 million in 1957. Adding the interest to the tax collections we find that there was a net increase of $425 million in the old age and survivors' insurance fund in 1957.

Moreover, there are express provisions in the present law for an increase of .5 per cent in tax rates for both employers and the employees every five years until 1975, when a maximum rate will be applied. The next increase will become effective January 1, 1960, when the current rate for old age and survivors' insurance of 2 per cent on employers and on employees will become 2.5 per cent. In 1975 the old age and survivors' insurance tax rate will become 4 per cent on employers and a like amount on employees. In addition, there has been since 1957 an additional levy of .25 per cent on both employers and employees for disability payments. The proceeds of this levy are set aside in a separate fund but can be combined with the old age and survivors' insurance fund whenever Congress thinks it advisable.

The social security system is not now and never has been financed on "full reserve" principles. The financ-

ing of the present system might be said to rest between the full reserve and pay-as-you-go plans. But it is actuarially sound.

Under the present law the rate of benefit payments is such that a full reserve plan of financing would have required a combined tax of nearly 8 per cent (instead of the current 4.5 per cent) collected from the beginning, and the reserve would by now be many times greater than the $23 billion we have. The reserve will never be as large as it would be under full reserve financing. But the interest on the reserve, which in 1957 changed a deficit into a surplus of $425 million, will help to keep the system solvent at much lower tax rates than would otherwise have to be collected.

The costs of financing any retirement system, public or private, inevitably increase for many years after the system has been established. During these years the number of beneficiaries will grow cumulatively because most of the people who are placed on the rolls in any year survive for many years thereafter. For people of 65, the average remaining length of life is now approaching 13 years for men and 16 for women, and half will live longer. While they stay on the benefit rolls, new people are put on each year, with similar and gradually improving life expectancies. This cumulative growth will continue until the number of beneficiaries who die equals the number placed on the rolls. This means an annual increase in the number of beneficiaries for 35 to 40 years.

Moreover, because of our aging population, the number of new people who are placed on the rolls also increases each year. More than 400,000 Americans reach the age of 65 every year, an annual increase of nearly 3 per cent.

Finally, our national system makes no provisions for past service credits. Thus, the benefits are small in the early years, but increase over the years. There has been gradual extension of coverage in the national system, and average benefits per individual have also been increased.

As a result of these factors, total benefit costs have increased more than the number of beneficiaries. At the end of 1940, the first year in which retirement benefits were paid out, the number of beneficiaries was 222,000 and the benefit payments totaled $35 million. In 1957, there were 11.2 million beneficiaries, and benefit payments came to a total of $7.4 billion. Both the number of beneficiaries and the total benefit payments have increased year after year; and the increase has never been less than 15 per cent over the preceding year. Where the total disbursements were less than .1 per cent of the taxable payrolls in 1940, they are now almost exactly equal to the 4 per cent tax we are currently collecting.

A more comprehensive study of the entire problem of financing the social security system is now being made by the Social Security Advisory Council organized in 1957. This study may disclose that the system is either slightly overfinanced or slightly underfinanced. But this would not be a serious matter, since any possible excess or deficiency would not affect the system seriously until at least the next century. Erroneous computa-

tions or forecasts can be corrected as they are discovered, by slight changes in future tax rates.

What is important is that we preserve the self-financing principle on which the social security system is based. This means that whenever benefits are increased beyond any existing surplus, contribution rates must also be increased, since such benefits can only be financed by tax collections and reserve. Thus, a powerful safeguard is provided both against runaway benefits and against diversion of old age, survivors', and disability funds for other purposes.

Not only is our social security system clearly solvent, but it promises to remain so throughout the foreseeable future. To this end, however, the principles upon which it rests must continue to be observed. ♦

Record Year for Group Insurance

MORE NEW GROUP LIFE INSURANCE—a total of $14,091,000,000—was purchased last year than the entire amount in force in 1939. This remarkable statistic highlighted a recent survey by the Institute of Life Insurance, which reported gains in all types of employee benefit protection.

About two thirds of the nation's wage and salary working force was covered by group life insurance at the beginning of this year, with 1957 purchases the highest recorded in any one year, the survey showed. At the start of 1958 there were 38,094,000 persons with group life insurance totaling $133,794,000,000. There were 25,530 new group life insurance plans established last year, bringing the total number of plans in effect at the beginning of this year to 120,400.

Group annuities, an important part of employee retirement planning, covered a total of 3,900,000 persons for $1,445,000,000 in future annual income at the start of 1958. During 1957 there were 790 group annuity programs established, bringing the total number to 6,060.

Some 45,237,000 persons were insured at the start of this year for group hospital expense under approximately 95,000 contracts with insurance companies; 45,753,000 for group surgical expense under about 96,000 contracts; and 25,124,000 for group regular medical expense under more than 56,000 contracts. Group loss-of-income insurance covered 21,381,000 employed persons under 246,660 contracts and group accidental death and dismemberment coverage was provided for 18,447,000 persons under 83,960 contracts.

Spectacular growth was shown by group major medical expense. Overall, there was a 154 per cent increase in the number of these plans in force at the end of 1957, and a 50 per cent rise in the number of persons covered. More than 12,000,000 persons were covered at the start of 1958, three-fourths of them under plans supplementing the basic health coverages and the remainder under comprehensive programs including all the basic benefits. However, comprehensive plans registered a 400 per cent gain during 1957 and outnumbered supplemental plans at the beginning of this year, 9,000 to 7,500.

—*The Journal of Commerce* 7/23/58

Management Turns Its Sights on

INVENTORY CONTROL

Condensed from International Management Digest

FAR TOO MANY companies have a negative, lackadaisical attitude toward inventory control. That's the judgment of the National Industrial Conference Board, based on its recent study of over 100 companies. "A discrepancy in the petty cash fund," the NICB comments, "may evoke more concern than the accountants' writing off $100,000 for surplus and obsolete inventory."

Encouragingly, though, the Board also found evidence of an awakening interest in methods of inventory control. Some companies, pressed for expansion capital, have discovered that assets and cash in the bank are two different things. "Inventories may be assets," points out the NICB, "but they cannot buy new plants or meet a payroll."

The fact is that nearly 30 per cent of the total assets of the average company is tied up in inventory. Inventories play a vital role in economic production, customer service, and the basic profits of business.

The Board found that many of the companies cooperating in its study have no formal long-range policy or objectives on which to base inventory decisions. A few executives say they prefer it this way—they like the "flexibility." But many more say they simply have not discovered a really satisfactory means of keeping inventories to a minimum.

There are many reasons for inventory imbalances. But one of the basic reasons is the failure of management to tackle the root troubles that are leading to the imbalances. Too many companies, the NICB concludes, treat only the symptoms.

The problems are formidable, to be sure. A good system of inventory requires a reliable forecast of business conditions—and forecasting is treacherous. In practice, inventory decisions are usually linked to current and short-term business conditions; consequently, action on inventories often accentuates swings between excesses and shortages. Part of the recession problem today is due to the tremendous inventory buildup during the 1955 boom—and the abrupt and continuing liquidation since last year.

The best safeguard, asserts the NICB, is a "carefully conceived and

permanent control program executed through a clear-cut delegation of responsibility and authority." There is considerable difference of opinion, however, on where to place the responsibility for inventory management.

In smaller companies, it is common practice to delegate the responsibility to the treasurer or controller. Larger companies place reliance on individuals, committees, or special departments. Companies with divisions usually tap the division manager, even though the over-all program may be directed by a central organization.

A prime difficulty seems to be that top management is far removed from the points where inventories are generated. And there are natural biases toward large inventories. The salesman wants delivery on receipt of an order; the production man wants plentiful stocks of raw materials and components to make scheduling more "efficient"; the purchasing man is afraid of being caught short.

To stop this "hoarding" of inventory, management often makes the mistake of getting involved in the details of inventory accounting—confusing the collection and review of data with actual control.

Companies with the best control systems tend to use two general types of inventory reports: detailed reports for day-to-day administration, and summary reports for top-level information.

Detailed reports usually contain information on (1) item description, (2) opening inventory, (3) quantity of orders received, (4) shipments, (5) production orders entered, (6) production finished, (7) required stock level, and (8) actual and available stock balances. These detailed reports are used by production expediters, production managers, plant managers, and sales departments.

Summary reports are usually arranged by inventory groups, expressed in a currency value. At best, they are arranged to show conformance to inventory objectives, with comparative information to indicate trends. These summary reports are generally distributed to middle and top management—usually as part of the monthly operating data.

Traveling inventory committees or auditors are used in some multiplant companies, and the firms say they are quite helpful in keeping inventory programs in line. They advise local managers on inventory problems and keep top management informed on the status of inventory.

While some managements seem content to judge their inventory situation strictly by the total money value, others are seeking standards that will measure inventory performance. Some of these standards are:

Minimum-maximum quantities. This is the most commonly-used technique of carrying out inventory control. But it is not a substitute for inventory management, and other standards are usually used with it. Without other standards, the danger is that decisions on inventory gravitate down to the stock clerk level. And delayed posting of records can nullify effective management review.

For raw materials, stock levels reflect availability, delivery time, price, storage space, requirements for economic production, relations with the

vendor, value of the item, possible changes in specifications.

For work-in-process, stock levels reflect activity of the item, economic batches, cost of the product, production losses, availability.

For finished stock, stock levels reflect past sales history, need for prompt delivery, customer order practices, danger of obsolescence, perishability, unit value, storage space.

Inventory budgets. A standard favored by many companies because top management can readily spot deviations from the inventory program. The budget fixes the responsibility for inventory management. It is also easier for management to coordinate the inventory program with sales, production, and financial policies. One common danger, however, is that sales and production men sometimes inflate their budgets to give themselves extra leeway.

Rate of turnover. This is sometimes based on a number of days' supply, sometimes on a ratio of inventories to sales. Companies that favor this standard say the rate of turnover is a good measure of the efficient use of inventory investments, that comparisons can be made with other years, and that top management can maintain control without becoming involved in inventory details. Division and plant managers are also left free to develop techniques of control.

Return on investment. This standard is usually applied to total operations of a plant or division, and not to inventories alone. Some companies say it is hard to separate inventory management from other factors influencing the rate of return. But many companies favor a return on investment standard as the best guide to effective inventory control. ♦

The Record on Wage Hikes

THE RECESSION does not seem to be putting much of a damper on wage hikes, judging from the settlements negotiated during the first six months of this year. Government figures show that most settlements clustered in an 8- to 11-cent-an-hour range. And the Bureau of National Affairs, Inc., reported that its analysis of contracts signed during the first half of the year showed a median increase of 9.4 cents an hour, slightly under the 10-cent figure for the last quarter of 1957 and the 10.3 median for all industries for the entire year. Some 4 million workers received deferred wage increases under long-term contracts. Most of these fell in the 7- to 8-cent range.

However, employers and their unions signed more "no increase" agreements during the first half of this year than during the same period last year. According to the Bureau of National Affairs, 9 per cent of all settlements in manufacturing industries provided no raise—and half of all textile agreements waived any increase because of depressed conditions in soft goods.

—*Business Week* 7/19/58

ALSO RECOMMENDED

BRIEF SUMMARIES
of other timely articles

GENERAL

HOW MUCH "OVERCAPACITY" IN U.S. MANUFACTURING? By Charles E. Silberman and Todd May. *Fortune* (9 Rockefeller Plaza, New York 20, N.Y.), September, 1958. $1.25. When the recent recession cut production, U.S. manufacturers appeared to be badly overbought in capital goods, but the actual facts are more encouraging, according to the authors. Using a new basis for measuring capacity, they point out that manufacturers last year were using 94 per cent as much of their capacity as they did in 1953 or 1955—a 6 per cent rise in excess capacity that is less than half as great as the rise that had been implied by the measurements that have been used by most economists in the past.

ON-THE-CUFF TRAVEL SPEEDS UP. *Business Week* (330 West 42 Street, New York 36, N.Y.), August 16, 1958. 50 cents. Credit cards have become a big business in this country; as of last April 30, service businesses (hotels, restaurants, and such) had more than $2.5 billion of credit outstanding—a sizable portion of it on credit cards. With the growth of this industry from the $934-million level of ten years before, many of the smaller concerns are being replaced by two giant rivals, and this article outlines the background, present status, and prospects of the 700,000-member Diners' Club and a newcomer that is already established in other branches of the travel field, American Express Co.

INDUSTRIAL DYNAMICS: A MAJOR BREAKTHROUGH FOR DECISION MAKERS. By Jay W. Forrester. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), July-August, 1958. Reprints $1.00. Drawing on research in data processing, information-feedback systems, and military decision-making, the author of this article outlines a unified system of management based on the dynamic interplay of all its various functions. The effect of such a system, he believes, would be to shift the executive's concern from actual operating decisions to the *basis* for them; to merge many line-and-staff functions; and to make a more decisive separation of policy-making from operations, with the dividing line much lower in the organization than at present. Charts.

A GUIDE TO YOUR TELEVISION APPEARANCE. By Robert C. Diefenbach. (Robert C. Diefenbach, 4819 Leland Street, Chevy Chase 15, Md.) $1.00. For the businessman who may be called upon to make a television appearance, this booklet contains some useful tips on how to successfully handle the problems usually encountered by the nonprofessional. Starting with the selection of clothing for a television appearance, the author deals with the wearing of eyeglasses; makeup; movement and action; voice level; following the cameras; lighting; the use of film clips, charts, and illustrations; using notes and mechanical prompting devices; and following cues.

IS YOUR PRODUCT DESIGNED TO SELL? By Victor Petertil. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), July, 1958. Reprints 50 cents. Good product design must achieve a variety of objectives if it is to play its full role in creating more sales, says the author, pointing out that the well-designed product is (1) pleasing to look at, (2) easy to use, (3) economical to produce, and (4) a clearly identifiable symbol of the company that makes it. After presenting concrete examples of the achievement of each of these objectives, he outlines a five-step approach to the problem of administering the creation and development of product design for maximum results. Photographs.

REGIONAL INCOME DISTRIBUTION IN 1957. By Robert E. Graham, Jr. *Survey of Current Business* (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D. C.), August, 1958. 30 cents. This article provides a comprehensive look at the relative economic progress made by different areas of the nation during 1957. In addition to a general analysis of regional economic trends, there are tables showing total and per capita personal income, percentage changes in total and per capita personal income, and percentage changes in industrial sources of personal income, all broken down by states and regions.

CORRECTION

The September issue of THE MANAGEMENT REVIEW incorrectly stated that "The Fortune Directory: The 500 Largest U.S. Industrial Corporations" was available from *Fortune* magazine free of charge. Subscribers to *Fortune* may receive single reprints without charge and additional copies for 25 cents each. Nonsubscribers may order reprints for 25 cents each. Orders should be addressed to Room 1430, 9 Rockefeller Plaza, New York 20, N. Y.

INDUSTRIAL RELATIONS

A BASIC GUIDE TO COMPANY COMMUNICATIONS. By Robert Newcomb and Marg Sammons. *Industrial Marketing* (200 East Illinois Street, Chicago 11, Ill.), August, 1958. 50 cents. Pointing out that the past ten years have seen tremendous changes in the basic approaches and tools used in employee communication, this article discusses some of the latest trends in printed company communications, including (1) the employee publication, (2) the employee newsletter, (3) the employe annual report, (4) the employee manual, (5) the bulletin board, and (6) miscellaneous media.

WORK LOAD INCENTIVES. By Peter E. Dutcher. *Advanced Management* (74 Fifth Avenue, New York 11, N. Y.), July, 1958. $1.00. Incentives, although good for both labor and management, have some aspects that tend to irritate both groups, the author says, describing some of the weaknesses and fallacies of many existing incentive plans. To eliminate these sources of dissension and place incentive pay on a more equitable basis, he suggests the adoption of a work load incentive plan, in which the pay is calculated, not on the basis of production, but on actual work performed and on attention required.

WORK SIMPLIFICATION. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), July, 1958. Reprints 50 cents. What makes work simplification work — and how well *is* it working in the face of routine plant indifference? This article includes a discussion by five of the founders of this technique, who explain what work simplification is and why they feel it is successful, plus a three-part description, complete with case examples, of how to make the technique work for you.

OFFICE

VALUE OF MAINTENANCE CONTRACTS ON OFFICE MACHINES. *Office Executive* (1927 Old York Road, Willow Grove, Penna.), September, 1958. 50 cents. This National Office Management Association survey of the office machine maintenance policies of more than 1,100 companies investigates the maintenance policies most commonly followed, the frequency of machine servicing, comparative costs of contracts held with manufacturers and independent service men, and findings on the use of foreign equipment. While not making any specific recommendations, the survey is intended as a basis for comparison by companies analyzing their own maintenance policies in an effort to achieve lower costs.

HOW TO HANDLE RISING MAIL AND COMMUNICATION COSTS. (Special Publications Division, Prentice-Hall, 415 East 52 Street, New York 22, N.Y.) $1.00. As a guide to coping with the recent increases in mailing costs—and with the further annual increases due during the next three years—this booklet offers some useful tips on reducing mailing costs through such measures as keeping mailing lists up to date, investigating the use of all types of mailing machinery, streamlining size and form of mail, and using the least expensive type of mailing practicable. In addition, it reviews telephone and telegraph uses, suggesting such new money-saving devices as automatic phone-answering.

PRODUCTION

THE PRODUCTION MAN'S GUIDE TO FASTENING DEVICES. By John J. Dwyer, Jr. *American Machinist* (330 West 42 Street, New York 36, N.Y.), September 8, 1958. Reprints 35 cents. Knowing how to put a product together is one of the keys to efficient production, the author says, pointing out that quick, inexpensive machining and forming techniques are wasted if slow and cumbersome assembly methods are used. In this report, he describes and illustrates a wide variety of fastening devices—including rivets, screws, nuts, bolts, and studs—and explains when each should be used to insure best results.

WHERE INDUSTRY STANDS IN ELECTRICAL MANAGEMENT. By Carroll W. Boyce and Gerald C. Quinn. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), August, 1958. Reprints 50 cents. The first of two articles based on the results of a recent survey of electrical management and maintenance practices in industry today, this report indicates that U.S. industry is falling short of a desirable mark in several areas, including capacity-demand ratios, training of future electrical manpower, size of electrical maintenance forces, lighting levels, and management practices and knowledge. Many tables detail the facts on electrical management submitted by the 329 medium-to-large plants replying to the questionnaire.

EXPLOSIVES FORM SPACE AGE SHAPES. *Steel* (Penton Building, Cleveland 13, Ohio), August 25, 1958. Reprints gratis. Industry is harnessing the awesome energy of explosives to handle some of today's toughest forming jobs in the metalworking industry, reports the author, predicting that the method will soon have an expanded range of practical applications. He describes various types of explosive techniques that are being used to forge, extrude, coldweld, pierce holes, work hardened copper, and perform other metal forming tasks.

THIS PRODUCTION CONTROL METHOD SAVES CUSTOMERS AND PROFITS. By Robert H. Grieser. *Management Methods* (22 West Putnam Avenue, Greenwich, Conn.), July, 1958. Reprints 50 cents. A case history of how one medium-sized company (Litton Industries, College Park, Md.) devised a reliable new scheduling system to eliminate missed delivery dates, which were causing low morale and loss of business. Describing the system in detail, the author says it is based on four basic production control factors: (1) the time element; (2) the availability of materials, machines, and men; (3) the detailed relation of one operation to another; and (4) the paramount relationship of materials, parts, subassemblies, and assemblies to end products.

MARKETING

PRIVATE VS. NATIONAL BRANDS. By Lawrence M. Hughes and George P. Nicholas. *Sales Management* (386 Fourth Avenue, New York 16, N.Y.), July 4, 1958. Reprints $1.00. This special 23-page report summarizes the findings of *Sales Management's* extensive study of trends for the past five years in the relative strengths of private and national brands in consumer products. Reporting that private brands are gaining in food and in hard and soft goods, but that national brands maintain dominance in drug products, automobiles, cigarettes, and beer, the article presents facts and figures on brand trends in grocery chains, department and variety stores, and drugstores.

TOTAL MARKETING TO SATISFY TODAY'S CONSUMER. *Printers' Ink* (635 Madison Avenue, New York 22, N.Y.). Reprints $1.00. This 32-page booklet contains reprints of six articles from *Printers' Ink* on the subject of the "new marketing concept." Included are case histories and discussions of such aspects as organizing for marketing, the value of new-product programs, the changing status and responsibilities of advertising, quality and discipline in selling, control of marketing costs, and changing channels of distribution—all designed to point out how U.S. manufacturers are attempting to organize consumer-oriented business operations.

MARKET TESTING. By Ernest J. Enright. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1958. Reprints $1.00. Although market testing is a valuable, necessary tool for reducing marketing risks and providing time to make adjustments before actual large-scale marketing, too many companies have nullified its usefulness by underestimating or disregarding its role, maintains the author. With case histories, he illustrates the damage that can be done by cutting corners, being too impatient to wait for complete test results before going on the market, and bypassing market testing in order to be first on the market.

SURVEYING THE MARKET. *Steel* (Penton Building, Cleveland 13, Ohio), August 18, 1958. 50 cents. In a dynamic economy, where consumer buying patterns are constantly changing, recessions and booms create abnormal conditions, and growths and shifts in population can affect markets, a well-organized marketing program can be essential to corporate survival. This article utilizes both case histories and the experience of many marketing men to describe what market research can do, how to develop a company program, where information can be obtained, and how to make use of MR results to remain competitive in changing markets.

PACKAGING

NINE TIPS FOR EXPORT PACKAGING. *Flow* (812 Huron Road, Cleveland 15, Ohio), August, 1958. 75 cents. Poor packaging is the greatest single reason for damage to overseas shipments, the author says, citing a survey by the Maritime Association of New York that found faulty packaging the cause of 65 per cent of the dock-to-dock damage of goods shipped from that port. In this article, he sets forth nine rules to guide the exporter in packaging his goods soundly enough to reach their overseas destination intact, and includes a table of cautionary words (i.e., handle with care, this side up, etc.) in five widely used foreign tongues.

MR: SENSE OR NONSENSE. *Packaging Parade* (6 North Michigan Avenue, Chicago 2, Ill.), September, 1958. $1.00. How effective is motivation research in the field of package design? According to this article, some doubt has been cast on the validity of certain findings by motivation researchers concerning the effect of consumers' "unconscious" reactions to specific types of package design. However, after describing the research methods and views of a number of leading packaging specialists, the article concludes that motivation research can be a valuable technique if it is coordinated with the other tools that should be used in determining package design.

29 WAYS TO MEASURE PACKAGING EFFECTIVENESS. By George J. Bevans. *Advertising Requirements* (200 East Illinois Street, Chicago 11, Ill.), August, 1958. 50 cents. Pointing out that there are many elements that go into the successful design of a sales-oriented package, the author discusses 29 of the most important questions a packager should ask before approving a design, such as (1) Is the package stackable, (2) Does it retain its shape after the product is partially used? (3) Is the package material consistent with the nature, texture, and appearance of the product? (4) Does the package lend itself to multi-unit packing?

FOREIGN OPERATIONS

GUARD YOUR INDUSTRIAL PROPERTY RIGHTS ABROAD. By Alexander O. Stanley. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), August, 1958. 75 cents. Even for a company that is not currently selling overseas, it is a good idea for it to register its trademark in foreign countries, says the author. It is not uncommon for "domestic" sales to find their way overseas, where domestic safeguards do not provide coverage, and it is therefore well worth the cost (approximately $100 per trademark) to register in foreign countries on the chance you will some day want to "go international."

COORDINATING YOUR FOREIGN SUBSIDIARIES' ADVERTISING. By Oscar S. Cornejo. *Industrial Marketing* (200 East Illinois Street, Chicago 11, Ill.), August, 1958. 50 cents. Separate advertising planning by foreign subsidiaries tends to weaken the over-all corporate image, says the author, pointing out that coordinated advertising not only presents a unified corporate image but also eliminates duplication of work, leads to more efficient use of promotional funds through standardization of budgets, and reduces literature costs through format standardization. In this article he outlines the steps that must be taken to achieve these goals.

Management Development: Where Does It Stand Today?

(*Continued from page* 8)

agers to prepare for increased responsibilities, and would be insuring resources of qualified management reserves.

This shift in objective brought about a number of attendant shifts in emphasis. For example, under the previous philosophy, there was considerable emphasis on evaluating a man's personal and personality qualifications, and potential for promotion. Under the new philosophy, the emphasis is on determining what results he is able to achieve on his present job. Greater emphasis on on-the-job training has also resulted.

2. SHIFTS IN APPRAISAL TECHNIQUE

There have been a number of shifts in technique, but perhaps the most important one is a substantial change in appraisal methods. In the earlier days of management development, a man's performance and potential were commonly appraised on the basis of some kind of check list of abilities and personality traits that the company believed to be essential for executive effectiveness. Often carelessly constructed, and never validated, many companies' check lists fell into early disrepute. Not the least of their drawbacks was that they lent themselves to superficial judgments.

Recent years have seen important modifications in appraisal procedures. The modern appraisal system is typically constructed to aid the manager to organize his appraisal thinking carefully, analyze all aspects of subordinates' performance, and minimize his personal biases.

One example of this approach is the so-called group or committee appraisal. Under this system, several men at an organizational level above that of the individual being appraised, who have been in a position to observe his performance and to form judgments about it, are brought together for an appraisal conference. Here they discuss and analyze the individual's performance in an attempt to arrive at an objective evaluation encompassing several points of view. Another system typifying the more comprehensive approach to appraisal is the field review method, which employs a highly

trained interviewer who, in discussion with the manager, develops appraisal information and conclusions on the subordinate's performance. Even companies that continue to use the traditional form-centered method of appraisal often insist that several line superiors appraise the individual independently and then meet to compare results and resolve differences. While not as comprehensive or as revealing as some appraisal procedures, the process does promote greater objectivity.

Obviously none of these methods is perfect, but they have these merits: First, they approach appraisal through careful analysis of the man's total job situation. This is a far cry from having a single manager simply rate a subordinate's performance as outstanding, satisfactory, or otherwise. Today the typical appraisal probes such questions as: What is the man's job? Is it organized properly? Has he been told the requirements of the job? What tools does he need to perform properly? What should the man himself do to improve his performance? What can the superior do to help him? What action can the company take?

Second, these techniques can be extremely valuable in giving the appraiser new insights on how to manage more effectively. Several companies state that appraisers get as much benefit from this process as those being appraised. Third, these techniques probe more deeply the question of how the company can better utilize its human resources, and they insure that this question gets the time and attention it deserves.

3. A LESS AUTHORITARIAN APPROACH

The third recent evolutionary trend is a strong shift away from what might be called the "authoritarian posture" of management programs. In its place has come a more participative approach. Five years ago, most companies thought in terms of a manager's appraising a subordinate, telling him specifically where his performance was weak, and prescribing the corrective action to be taken. In baldest terms, the concept was "I, as your superior, will tell you what is wrong with your performance and what you should do about it."

The new approach is reflected in this comment by a top executive: "If we really mean that all development is self-development,

the man himself must share in the responsibility for analyzing his performance and setting up a development plan."

One illustration of this type of change is the fact that many companies are now using *self-appraisal* methods. These methods could more properly be called *dual-appraisal* methods, in that both the manager and subordinate appraise the subordinate's performance independently, then compare results, and, with the subordinate himself taking the lead, set up a development plan. There is another process, sometimes referred to as *goal setting,* that is highly participative. Under this process, the manager and the man agree at the start of the year on the objectives the man is to accomplish during the year. Twelve months later the two review his accomplishments against objectives, and decide what is to be done the following year. The trend toward participation is also seen in companies that still follow the traditional approach, whereby the manager appraises a subordinate's performance and then tells him of appraisal results. The difference now is that the subordinate must take the lead in determining what development action is necessary in the light of that appraisal.

These three areas of change—change in objective, changes in technique, and the shift in posture from authoritative to participative—are clear evidences that the process of management development is evolutionary. But do these changes mean substantial increases in the effectiveness of management development programs? Quite possibly yes, but there are still a number of basic problems that must be solved.

THE HARD-CORE PROBLEMS

Here are some of the hard-core problems that operating men and management development specialists most frequently cited:

1. *The "me-too" program.* Too many companies have instituted programs simply to keep up with the Joneses. Their programs are often hybrids, borrowed from the forms and procedures of other companies. The result is neither fish nor fowl. This gives rise to doubt among operating people that the program is necessary or suited to their needs.

A natural hazard in borrowing programs is that a company can unwittingly adopt procedures and techniques that are not necessarily

successful. For example, a company in the chemical industry adopted, company-wide, the program that was being used in one of its subsidiaries. The subsidiary had copied it from a leading pharmaceutical firm. The parent company had trouble with the program from the very outset, and later found out that the pharmaceutical house had abandoned the program two years before because it wouldn't work.

The superficiality inherent in the borrowed program can only be avoided when the company thinks through its own particular objectives in management development and establishes the broad outlines of the program needed to meet these objectives. Techniques can be borrowed, but only within such a framework.

One company management development staff man stated: "We made two false starts by copying the programs of other companies. Then we started fresh and really thought through our development problems. We defined our objectives and policies and got our operating people to understand them. Next, our department heads worked with us when we developed our appraisal and inventory techniques. Some departments have gone off in slightly different directions than others. But we can live with this as long as each department believes in what it is doing."

2. *The unnatural, mechanistic flavor.* Management development has been defined as the application of the orderly, logical, and well-accepted process of management—planning, executing, and controlling—to the utilization of human resources. This sounds like a foolproof formula. Unfortunately, it is just this logic and orderliness that can prove disturbing to operating managers who have traditionally followed highly individualistic, free-wheeling approaches to the development of their subordinates.

Many things about management development do seem mechanistic. For example, the term *manpower inventory* is frequently used. Most managers still think of inventory as applying to physical things, materials and products, rather than to human beings. They are vaguely disturbed by the implications. Even more important, many programs place undue emphasis on paperwork and forms. Where this has been carried to extremes, managers have been quite justified in their contention that the process is "procedural" and unnatural.

Further, a number of programs require a kind of pigeonholing of men that disturbs the operating manager. For example, the program of one company requires all managers to classify their subordinates as being *not promotable, promotable now,* or *promotable within two years.* This seems like a reasonable classification to the management development specialist who devised the system, but operating men complain that their men just don't fit naturally into these rigid classifications. "Our company seems to think that we can grade our people the same way one would grade apples, oranges, nuts, and bolts. But we can't. Our people are human beings; they're individuals, and they're all different."

The complaints of the unnatural, mechanistic flavor is a common one. But there is considerable argument that this need not be a controlling factor. Perhaps the statement of one manager can best summarize this:

> Our people do complain that management development is somewhat unnatural. However, we believe that, at least with us, this unnaturalness is only skin deep. We look on our program primarily as a means of focusing the attention of all managers on the development of their subordinates, to bring about more positive and constructive action than before. It's our policy to rely on the manager to decide what his men's development problems are and to work out with them what they are going to do about them. The systems and the paperwork bother us some, but as long as we stick to this policy, this won't be a critical problem.

3. *The appraisal interview.* The third problem to be discussed here is a major stumbling block. Executives in charge of management development in company after company point to the interview that the manager holds with the subordinate after appraisal as the principal weak spot in their program. In almost all companies surveyed, management development specialists deplored the failure of operating managers to follow up the appraisal immediately with effective and constructive appraisal interviews with their men.

Operating managers offer two reasons for their failure to hold appraisal interviews. First is the manager's reluctance to face up to the difficult and perhaps distasteful chore of telling a subordinate, in fairly candid fashion, what he thinks of his performance. The social orientation of the manager is more toward giving the other fellow a pat on the back for a job well done and making light of mistakes. Many managers find it difficult, in some cases almost

impossible, to assume a different position, even though they believe that, as managers, they should.

Second, many managers lack confidence in the accuracy and fairness of the appraisal that is to be the basis for the interview. They hesitate to proceed with the interview for fear that the subordinate will successfully contest the appraisal conclusions and put the manager in what he visualizes as an untenable position.

Companies can hardly overestimate the seriousness of this failure on the part of operating managers to hold constructive appraisal discussions with their men. It can be a clear symptom of a deteriorating program. For the very core of the development process is a productive working relationship between manager and subordinate in which the facts are freely faced. This relationship should bring about understanding by both men of key requirements of the subordinate's job, the basis on which performance is measured, and how the subordinate is doing. This understanding is not only the heart of management development, it is at the heart of management itself.

How does a company meet this problem? First, top management must emphasize that free communication between manager and subordinate about the way in which work is being performed is essential to the management job. The management development process may stimulate and enhance this effort, but we should recognize that an essential element of the management job is at stake here, not simply a procedure of the development program.

Secondly, the company should recognize that unless line managers have confidence in the appraisal process, the problem of getting them to discuss results with subordinates becomes almost insurmountable. This means that a company must search out methods that win the confidence of line managers. The approach that is highly satisfactory to the personnel department from a technical point of view may not be one that line managers will enthusiastically support.

Finally, as Lawrence Appley has observed, managers tend to do what top management inspects. If management insists that appraisal interviews be held, and asks whether they *have* been held, chances are that this key step in the development process will not be neglected.

4. *Lack of top-management participation.* Too many programs start with a bang and die with a whimper. "Top management lost interest," is the lament of the management development staff man. But the truth is that top management may not even know when a program is on its last legs. The writer recently sat across the desk from a chief executive who was amazed when he heard that managers in his company generally agreed that their management development program had been "dead" for at least two years. In this company, the president had no real role in the program, and the management development staff man was so far removed organizationally from the president that he had no opportunity to acquaint him with the situation.

One obvious way to meet this problem is to place the management development staff activity organizationally in such a way that program developments are communicated directly to top management. But an even more constructive solution is for the chief executive to take an active role in the program and to assume responsibility for assessing its over-all progress. For example, in some companies the president is chairman of a top-level management development committee. This committee reviews broadly the progress of the program, evaluates results, and decides on major changes in policy or procedure.

A president's active participation not only ensures that he is up to date on program progress, but it can stimulate him to seize the many opportunities that exist to spark the program and impress company managers that management development and management itself go hand in hand.

RECOGNIZABLE BENEFITS THE KEY

A recurring question that management faces is "What benefits have we a right to expect from our program?"

The obvious benefit that management seeks, of course, is development of its men. A number of companies try to measure program success purely in terms of figures (primarily statistics on promotions, salary increases, and the like) that presumably reflect successful development. But these measures actually do not tell us very much. Such statistical results may or may not be directly related to the management development program.

Our survey suggests an alternative approach. In interviews, operating managers were asked what tangible benefits in their own departments they could identify as having resulted from the management development program. In the majority of cases, managers could point directly to benefits that were real and important, though they were not specifically related to the number of managers developed nor the percentage of top-level jobs filled from within the company.

This suggests that there are benefits which can realistically be attributed to the management development program, and that these may well represent the initial return from a company's investment in management development. But what types of benefits are these? As a kind of check list that could be used in evaluating a company's program, the following may prove useful. It was developed from interviews with operating managers of a large manufacturing company. They reported that the program had:

1. Promoted better understanding between superiors and subordinates on the kind of job performance expected.

2. Established better communication between superiors and subordinates and more frequent, informal discussions of work.

3. Enabled a number of superiors to see how certain weaknesses on the part of subordinates were actually traceable to their own weaknesses in supervision.

4. Pointed up operating problems that were beyond a department's own control and that would require action at higher levels in the organization.

5. Led to the promotion of a number of individuals who might otherwise have been overlooked.

6. Made it more difficult for some departments to pass off incompetent men to other departments.

7. Improved the relationship between line and staff.

8. Given division managers new insights into their department heads' abilities to appraise and develop subordinates.

9. Impressed managers with their responsibilities for aiding the development of subordinates.

10. Brought about an increase in interdepartmental promotions and transfers.

11. Discouraged the promotion of unqualified men.

12. Brought about the transfer of several capable men who were blocked in their present positions.

13. Identified some management trainees who were dissatisfied and about to leave the company.

14. Pointed up the need for better personnel policies.

15. Identified some badly misplaced personnel (in some cases, early enough in their careers so that something constructive could be done about it).

16. Proved an inducement in college recruiting.

Willingness to evaluate programs in terms of benefits of this type could be of considerable importance to management development in its present stages.

The moral of all this seems clear. The long-range objective of a management development program is development of people—a slow process that is hard to perceive and harder still to measure. Other benefits are more immediate and much more visible. If a company is not impressed with such recognizable benefits it is receiving and convinced that these benefits contribute materially to development of people, it should carefully reassess its management development efforts. These may be the key for learning whether the management development program is worthwhile.

REASSESSING THE PROGRAM

Management development is about one decade old. It has undergone substantial change in concepts, objectives, and methods. Real problems have arisen, but progress has been made. Many companies can point to an impressive list of benefits they are realizing from their programs.

This means clearly that the process of management development is evolutionary. If continued progress is to be made, the answer would seem to lie not in cutting off a program simply because it becomes obvious that problems exist. The company that wishes to achieve maximum benefit from its program should carefully reassess where it stands in its management development effort. It should identify those parts of its program that are productive so these efforts can be broadened. And it should root out the problems that impede progress so that these elements of the program can be effectively reshaped.

What Makes a Growth Company?

(*Continued from page* 13)

What business managers need to know is how they can be certain that they will have a greater share of future business resulting from today's research. To answer this question, they must establish the commercial feasibility of each program.

While the scientist is undertaking a particular investigation to establish new knowledge, an accompanying investigation should evaluate the economic feasibility of utilizing such knowledge. A combination of the economic feasibility and the technical feasibility will determine the projects that have the greatest commercial feasibility—the projects that deserve emphasis in planning for corporate growth.

The commercial feasibility of future programs should be based on information developed by three types of forecasting: technological forecasting, demand forecasting, and business conditions forecasting.

Forecasting is simply thinking ahead. Practically employed, forecasts are projections into the future made by using all of today's factual information that appears to have a probable bearing on the outcome of action to be taken in the future.

In looking ahead at technology, demand, and the business climate, the end objective is always that of anticipating tangible goals that might be achieved—goals represented by clearly defined targets, timetables, and tactics. With this in view, three questions should be asked about the days ahead:

1. What does our present scientific and engineering know-how suggest that we may be able to accomplish?
2. What do presently indicated demand trends suggest that we may achieve?
3. What opportunities are inherent in foreseeable changes in business conditions?

The cumulative answers to these questions will reveal what, when, and how future opportunities may be capitalized upon. They will indicate opportunities that are open to exploitation. The ultimate selection of the avenues for potential growth and development will depend on many other factors, but final decisions will be in-

fluenced to a large degree by the company's resources—in terms of both manpower and money available to exploit opportunities.

APPRAISING OPERATIONS AND PROGRAMS

In planning an attack on the future in terms of the programs management can put into motion, the second pertinent question is—what's our position? To determine this, executives often mistake a review of the balance sheet and the profit-and-loss statement for an adequate position check.

The balance sheet and the profit-and-loss statement don't tell the skilled analyst the things that he would really like to know. Nor do they provide the executive with the facts he must have at his disposal if he is to make an informed appraisal of the present position of his operations. To do this, he must be supplied information having a direct bearing on:

1. Return-on-investment measures
2. Uniform planning procedures and techniques
3. Specific objectives by products
4. Total company plans

Analysis of these four factors reveals the company's position in perspective—a perspective which can never be ascertained from a perusal of financial statements alone.

1. Return-on-investment measures

Return-on-investment measures provide criteria for determining the relative effectiveness with which executives manage the total assets subject to their control. Large or small, a company exists to make a profit, and this profit is only significant when measured in relationship to the total sum of money invested in physical facilities, inventories, and goods, as well as working capital.

The return on investment, or assets, usually measured before taxes, must be established relative to both current industry performance levels and to the levels currently reflected by broader industry yardsticks of performance. For example, if return on investment in a specific industry grouping in which a company operates is becoming increasingly less favorable when viewed in the perspective of broader business horizons, it seems quite probable that new ventures would be advisable. The converse situation,

a return on investment in a specific industry becoming increasingly favorable relative to the broader pattern, might suggest concentration and expansion in order to capitalize on unusually good prospects inherent in the going business.

Return on investment should be recognized as a product of investment turnover and profit margin—one offsetting or amplifying the effect of the other. If the investment in a particular product is turned over twice every year with a profit margin of 7.5 per cent, the annual net return on investment is 15 per cent. To achieve this same return when the investment is turned over only once each year calls for a profit margin of 15 per cent on each sale.

To measure return on investment adequately, ratios must be broken down by product lines. The executive must make a searching evaluation to find out where his earnings on invested capital are highest and where they are lowest. Fixed and current investment turnover should be examined separately, as should such asset accounts as receivables, inventories, and the like. By this analysis the manager can establish the relative positions of various product lines as current and potential profit producers.

2. *Uniform planning procedures and techniques*

An analysis of established planning procedures reveals the degree to which a management mechanism has been established that provides for maximum participation in matching opportunities and resources. Plans in themselves represent no more than a marshalling of facts bearing on future courses of action, but the very fact that these future courses of action are to be recorded on paper, available for others to review both now and later, is a powerful deterrent to careless and superficial thinking.

Planning procedures and techniques encompass: (1) long-range objectives; (2) fiscal period objectives; (3) implementing programs; (4) control sequences; and (5) schedules.

Together these five parts of the planning process make decentralization of planning possible, thereby avoiding one of the major causes of ineffective planning. Plans often fail because they don't take into consideration all the important factors that will come into play when actual programs are put into operation. When the

planning function fails to provide for decentralized decision-making, it is extremely difficult, if not impossible, to make adequate provision for such contingencies at points in the organization remote from those where final decision-making must take place.

Responsibility for planning and the execution of plans should be delegated to the same executive. The plans themselves and the measurement of performance is subject to review and approval at the next higher management level. Uniformity of planning procedures and techniques, as well as the organization and coordination of these activities throughout the company, is essential to effective integration of each plan into total company plans and programs.

Long-range objectives represent a statement of future levels of performance considered to be feasible achievements. Both the time period involved and the factors incorporated should be determined by the specific operating requirements of a particular industry. In some industries, a five-year plan would represent the optimum; in others, a span of twenty-five years would be more appropriate.

Long-range objectives should record sales volume or gross revenue and profit goals, as well as cost and investment levels anticipated in the achievement of these goals. They should be flexible and subjected to periodic (usually annual) reappraisal.

Fiscal period objectives reflect the specific goals to be established in the ensuing months, both in working towards long-range objectives and in producing current profits—a factor that can never be lost sight of in operating a company.

Implementing programs are specific plans designed to achieve long-range objectives, a defined basis of action to raise company operations from present levels to those outlined in the long-range objectives. Accordingly, they should relate specifically to sales volume or gross revenue and profit goals, as well as to cost and investment levels anticipated by the statement of long-range objectives.

These implementing programs should detail research appropriations, development costs, facilities requirements, manufacturing programs, cost-reduction action, distribution plans, and executive development programs that are essential to the achievement of stated objectives. They should be stated in terms of programs for

the fiscal period as well as for the time period of the longer-range objectives, and should be reviewed and revised prior to and during each fiscal period. Programs should be spelled out in terms of targets, timetables, and tactics. Deviations should be analyzed and the necessary adjustments made in programs and objectives.

Control sequences are essential to a smoothly functioning and well-coordinated planning process. Participation and associated responsibilities should be established for those who enter into the planning process, either in decision-making roles or advisory, interpretive, informational, or coordinative roles. Specific planning responsibilities associated with job classifications, reporting relationships, and timing should be defined.

Schedules should provide for uniform reporting procedures. Such uniformity is essential to interpretation, coordination, and the combining of individual programs into total company plans.

Schedules, control sequences, implementing programs, fiscal period objectives and long-range objectives are individually essential elements of sound planning, having as their purpose the development and recording of targets, timetables, and tactics. These procedures, however, do not have substance in themselves—they provide a framework that facilitates the actual decision-making process, but they are never a substitute for managerial judgment.

3. Specific objectives by products

The success or failure of any business is determined by a summing up of the performance records of individual product lines. Every activity in a business owes its being to the products the business sells and should be subservient to product needs. Yet how often we see the proverbial tail of legal, financial, personnel, and other service functions in the company trying to wag the dog. Of course, this is not true in more enlightened operations, where check reins are held and used when necessary to halt departmental aggrandizement by restoring service functions to service roles.

For each product the company sells, specific objectives should be established. These specific objectives should have the primary purpose of increasing the return on the investment by improving margin and turnover relationships through increased volume, lower costs, and optimum utilization of the investment needed.

Specialty and single-line businesses will make use of different criteria in establishing product objectives than will be used by larger corporations. The smaller company can take advantage of such factors as lower overhead, flexibility, and the ability to act quickly. The larger company can make greater use of such factors as R&D, staff services, and merchandising techniques, which are not available to the smaller company in the same degree.

Particularly pertinent is the determination of the optimum market position feasible for each product line in establishing a volume base commensurate with the costs of achieving this position. For every product line there are uneconomical minimums as well as maximums that exist for every general scale of operations. These should be known and understood. Product objectives must also take into account the characteristics of the product, the company, and the market.

4. Total company plans

In the final phase of appraising operations and programs, total company plans should be studied. The corporation is a facade behind which many businesses actually are going on, and we may assume that these many businesses, represented by individual product lines, gain certain advantages through the cooperative undertaking. In appraising operations, it is desirable to itemize specific advantages that have accrued to the individual product lines and how much this has cost the individual product lines. This provides a basis for evaluating total company programs and determining the degree to which resources will be capitalized upon in the years ahead. Not only should individual product lines reflect definite planning, but total company plans should reflect basic contributions that have made and will make these plans more effective than would have been otherwise possible.

PLANNING NEW VENTURES

In matching resources against opportunities, the third major question management must ask is, "What are the opportunities?" These opportunities may be reflected as new-product opportunities, new-market opportunities, or opportunities to acquire new facilities as well as managerial talent and technical skills.

Answers to this question involve searching for specific opportunities and evaluating their potential value. Opportunities to be considered should be spelled out in qualitative and quantitative language. This list suggests some important aspects for review:

1. What is the outlook for the industry identified with the proposed venture?
2. What are the significant features of the proposed venture?
3. How do patents and licenses affect the venture?
4. What effect will the proposed venture have on relationships growing out of present activities?
5. What are the markets?
6. What are the distribution requirements?
7. What competition can be anticipated?
8. What are the estimated costs and potential profits?
9. How much of a threat does technological development present?
10. What course of action is recommended?

The planning of new ventures should be a continuing activity. It takes time, money, and effort to locate and evaluate business opportunities, and the job calls for specific abilities that must be developed or acquired. Left unused, they are lost. Continuing practice alone develops the skills essential to the search for and evaluation of potentially profitable new ventures.

ADJUSTING TO THE FUTURE

The fourth question that is raised in matching resources and opportunities—what should we do?—is one that is often asked prematurely. Until some attempt has been made to evaluate what the future appears to hold in store, until going activities have been reappraised and available opportunities surveyed, it is improvident to attempt any action other than that of a fact-gathering nature.

Even then, before decisions are made, certain areas should be explored by asking such questions as these:

1. Going beyond existing product lines, what background of executive talent is available?
2. What is the availability of funds beyond those required for current operating needs?
3. Are policies flexible?

4. Would stockholder reaction be favorable to new ventures?
5. Can the corporate structure be adapted to new ventures?
6. How would the directors respond to new programs?
7. Would the present products be sensitive to new lines?
8. What is the character of the market structure?
9. How would new programs fit present distribution channels?
10. Does the sales organization show vitality?
11. How adaptable are production facilities?
12. Are production facilities competitive?
13. Does depth of talent exist in the technical group?
14. How well developed are planning procedures?

The basis for adjustment to the future is largely provided by the operational intelligence that results from evaluating the future, appraising operations and programs, and planning new ventures. These provide the basis for any adjustments in operations. Those adjustments that are made have as their ultimate objective the improvement of the future profit position of the corporation.

THE ANATOMY OF CORPORATE DEVELOPMENT

The corporate development function has as its primary purpose collecting and making use of all available information and know-how to assure future business growth by matching resources against opportunities.

Corporation growth has been based on management's capabilities in executing four responsibilities. These four—evaluating the future, appraising operations and programs, planning new ventures, and adjusting to the future—have played dominant roles in guiding the future course of action in growth companies in the past. There is every reason to believe that these are the essential functions in planning for growth, stability, and increased profits in days ahead. They may be said to make up the anatomy of corporate development.

Many executives have excelled in their understanding of one or more of these functions, but those who have succeeded in guiding company operations to the pinnacle of success appear to have had the advantage of being able to understand the complete anatomy of corporate development and to apply this understanding to their own individual businesses in preparing for the future.

The Case for Company Creeds

(*Continued from page* 18)

them.* The following paragraphs contain a brief summary of some of the findings of the study.

Of the 51 companies answering the question, "When was your company's creed first expressed in writing?" almost 75 per cent stated that their creeds were written less than five years ago. In 17 of these companies, the president was the individual who drafted the wording of the creed. In 14 companies, some form of committee drafted the creed.

In answer to the question, "What purpose was the creed intended to serve?" formalization and clarification of basic philosophy and objectives of the company was the single answer given most often (26 out of 73 responses). The main use of the printed company creed as reported by 25 out of 87 responses was reproduction in employee handbooks, followed by displaying the creed in work areas in office and plant (15 out of 87 replies).

As to the "effectiveness" of the creed, several companies made more than one response, but 35 out of 95 responses expressed the opinion that the development of more effective managerial policy was made possible through the development of the company creed. Four responses suggested that the companies concerned found it hard to measure or define the effectiveness of the creed.

What is the effect of a printed creed on company personnel? Several respondents were enthusiastic about employee reaction, but few substantiated their judgment with measurable results. "Our creed is understood because of the fine wholesome feeling of mutual understanding and respect we share," commented a senior management official of one company. "There never is any criticism of our creed," remarked an executive of another firm. "Therefore, it must be accepted and understood."

Nine respondents indicated that they do not believe there is proper understanding and acceptance of their creeds within the company. "We have not used our creed widely enough. It is neither

* For a complete report on the findings of this survey, see *Management Creeds and Philosophies*, by Stewart Thompson (Research Study No. 32, 1958), published by the American Management Association.

understood nor accepted by most employees," one commented. An official of another company stated on the questionnaire that "our creed is not kept before the employees, nor is it re-emphasized periodically," and that accordingly the creed has little if any real significance to them. Because of the difficulty of understanding some of the broad generalizations in the printed creed of his company, one executive indicated, the response of employees to the creed was not very marked, because "most employees want more detailed specifics." A respondent for another company reported, "Our creed is understood and accepted only by our top management. They were the ones who discussed it and mutually agreed to it."

On the survey form, this question also appeared: "Would you advise other companies who haven't done so to develop their own creeds?" Out of 51 responses, 47 checked "yes." The controller of an Oklahoma corporation remarked: "The process of formulating the creed is most helpful and stimulating in clarifying management's ideas of the objectives it wishes to obtain and the principles it wishes to employ in obtaining those objectives. It is a very constructive endeavor, and I recommend highly that other companies take time out to formulate their basic creeds."

GENERAL OR SPECIFIC?

A manager must be able to translate easily from general statements of policy to daily practice, and back again. But he must have help, and some of the generalizations that pass for "company policy" are little more than obscure and meaningless words—words that give no hint as to what, when, or how action should be taken. "Do it right," for example, is a fairly useless generalization—not because it is not an admirable aim, but because it suggests nothing that isn't already obvious to everyone. (Yet there is one company that calls it "our policy.")

On the other hand, some generalizations can be useful. For example: "All who come in contact with this company ought to have some opportunity to benefit from that contact." This statement provides a principle by which an individual acting on behalf of his company can guide himself in any situation. It becomes a central part of a common body of knowledge.

There are some, of course, who think that any general statement

smacks of the "theoretical"—and consequently is useless or irrelevant. This position ignores the fact that nothing is more useful to the organization of thought and experience than certain kinds of fecund generalizations. A test of the fecundity of a generalization—of a "policy" or a "creed," for example—is its ability to generate useful guides to action in daily practice.

When we spell out company creeds, policies, or objectives, we must be sensitive to the appropriate degree of generality or specificity that is needed in the case under question. For certain occasions, detailed instructions that define what, when, where, and how action is to be taken are required and appropriate. On other occasions, only a general statement is needed for clarifying the nature of what is to be done.

In drafting the wording of a company's creed, there is a danger that the objectives of the business may be overgeneralized and oversimplified. To say that the company is in business to make a profit, or that the function of management is to get work done through other people, is not enough to provide the managers of a specific enterprise with a sense of direction or a basis for intelligent planning.

PUBLISHING THE CREED

If the central considerations of the business are examined for the purpose of publishing a creed, there is a serious danger that management will feel when the document is in print that "the job has been done." The development and redefinition of the objectives of the particular business and the related planning and doing must be based on a continuing re-evaluation of the ever-changing environment of customers, customers' customers, technological advances, worker attitudes, and so forth.

As a matter of fact, the publication of the company creed is not at all necessary to the process of managing a business. What is essential is that the managers of the enterprise come to grips with considerations that are central to the way the organization functions. These two questions must be asked—and answered:

What is our business?

What is management?

These questions may seem unsophisticated, but the fact is that there can never be easy, definitive answers to either of them. In

the process of attempting to answer them, however, those participating will be likely to see what is most necessary to assure the survival of the business.

DEVELOPING A COMPANY CREED

Of course, no document, especially when it is as brief as a company creed, can express *all* the values, assumptions, and principles that make up the common body of knowledge. But in the process of discussing values, relationships, and purposes—provided that such discussion is oriented to what actually happens within the company—many facets of these things will be clarified to the benefit of those in the discussion.

The personal philosophy of the top management, particularly of the chief executive, will find expression in the company creed. But unless all those whom such a statement is intended to guide have also been "emotionally involved"—have shared the experience of developing it—it is difficult to see how it will mean much to them. Furthermore, unless the meaning and intent behind the written creed are well understood, it can do more harm than good by creating expectations that are not fulfilled. Probably the best way to insure this understanding of the creed is to have as many people as possible share in its formulation. Those who have not participated in the examination of assumptions and premises upon which management action is based will not share most of the benefits to be derived.

PREPARING FOR ORGANIZED ACTION

To say that the number of companies making constructive use of a company creed is still quite small is only emphasizing that it is still uncommon for top managements to realize the importance of thinking in broad terms about where their business is now, where it should be going, and how it is going to get there.

When we speak of developing a company creed, as an expression of a common body of organized knowledge, we are speaking of the need for organized thinking. The need is plain: Without organized thinking there can be no organized action, and without organized action the road to corporate growth is hard to find and harder to follow.

Book Notes

(Please order books directly from publishers)

MARKETING

MOTIVATIONAL RESEARCH: *Its Practices and Uses for Advertising, Marketing, and Other Business Purposes.* By Harry Henry. Frederick Ungar Publishing Company, New York, 1958. 240 pages. $9.00. Written for the business executive as well as the market researcher, this practical guide to motivation research outlines its nature and purpose and describes the techniques commonly used. Numerous case histories, mainly derived from British studies, illustrate the application of motivation research to such fields as production, packaging, distribution, marketing, advertising, and public relations. The author also discusses controversial aspects of motivation research and points out some of the pitfalls to be avoided in using it.

HOW TO SELL YOURSELF, YOUR IDEAS, YOUR PRODUCTS. By Charles E. Irvin. The American Press, New York, 1958. 168 pages. $2.75. This practical handbook on selling deals with such topics as the process of communication, proper choice of words, the use of voice and gesture in sales presentation, the effective use of sales materials, and the profitable practice of listening.

MARKETING IN CANADA. Edited by Edward J. Fox and David S. R. Leighton. Richard D. Irwin, Inc., Homewood, Ill., 1958. 437 pages. $7.80. In this collection of articles sponsored by the American Marketing Association, Canadian experts from business, government, and education analyze the Canadian market. Following an examination of the Canadian market generally, the authors discuss regional markets, distribution channels, auxiliary marketing services, government regulations, and managing the sales force in Canada. The work concludes with selected case histories. A guide to sources of Canadian marketing information is appended.

MARKETING IN TRANSITION. Edited by Alfred L. Seelye. Harper & Brothers, New York, 1958. 337 pages. $6.00. Designed primarily for marketing students, this volume presents selected articles from various business publications on recent trends in marketing institutions, methods, and theories. Among the subjects discussed are price decisions and marketing policies, the advantages of the large firm, the role of advertising, Fair Trade pricing, consumer credit, the boom in trading stamps, and the future of supermarkets.

ELEMENTS OF MARKETING. By Paul D. Converse, *et al.* Prentice-Hall, Inc., Englewood Cliffs, N. J., 1958. Sixth Edition. 883 pages. $7.95. A revised edition of a textbook originally published in 1930 which highlights recent changes in the structure of the market, current quantitative data, and recent theories of distribution. It places new emphasis on marketing management, describes changes in the physical handling of goods, and examines such developments as discount houses and suburban shopping centers. The material has been reorganized and the number of chapters reduced.

CASES IN RETAIL MANAGEMENT. By Malcolm P. McNair, *et al.* McGraw-Hill Book Company, Inc., New York, 1957. 806 pages. $10.00. The cases presented in this Harvard Business School case book are drawn mainly from large-scale retail establishments—department stores, chains, and supermarkets. General merchandising policies in relation to consumers, pricing, general merchandising management, personnel, plant operation, and store systems are among the various topics covered. A special section is devoted to the fundamentals of retail merchandising arithmetic.

PROBLEMS IN MARKETING. By Malcolm P. McNair, *et al.* McGraw-Hill Book Company, Inc., New York, 1957. Second Edition. 740 pages. $7.00. This revised edition of the Harvard Business School case book on marketing, originally published in 1949, contains a large proportion of new cases. It also includes material on special sales promotion methods, the use of marketing research, and Canadian marketing problems—subjects not previously covered. As in the earlier edition, there is an illustrative analysis of one of the cases, and excerpts from an actual class discussion, as well as brief introductory material in each chapter.

CONSUMER BEHAVIOR: *Research on Consumer Reactions.* Edited by Lincoln H. Clark. Harper & Brothers, New York, 1958. 472 pages. $6.50. The papers and comments in this volume were presented at the 1955 conferences of Consumer Behavior Inc. and the National Bureau of Economic Research, and at the 1955 Conference on Consumption and Economic Development at Princeton, N. J. Among the topics discussed are consumer reaction to product innovations, autos in America, consumption choices and economic change in Puerto Rico, international comparisons of family consumption patterns, and the TV industry as a dynamic element in consumption.

HOW TO INCREASE YOUR SALES VOLUME AS A MANUFACTURERS' AGENT. By Marvin Leffler. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1958. 197 pages. $4.95. A practical guide for manufacturers' agents which outlines various ways to increase sales volume. The author discusses such topics as classifying products for multiple-line selling, rationing selling time, missionary work, sales promotion techniques, and the sales interview.

THE FRONTIERS OF MARKETING THOUGHT AND SCIENCE. Edited by Frank M. Bass. Modern Art Company, Columbus, Ohio, 1958. 336 pages. $5.00. Based on the proceedings of the 1957 Teachers' Conference of the American Marketing Association, this volume presents a number of papers by marketing specialists. Among the subjects covered are the impact of consumer attitudes and motivations on behavior, the marketing management concept, merchandise management accounting, cost reduction through mathematical programing, and curriculum trends and developments in marketing.

NEW TECHNIQUES IN MARKETING MANAGEMENT. By Harry Simmons. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1958. 246 pages. $7.50. This popular discussion of new marketing management techniques is grouped around four main areas: modern marketing management, new operating tools, new sales tools, and new sales communications. Numerous quotations from business executives are used throughout.

HOW BUSINESS BUYS. United States News Publishing Company, New York, 1957. 144 pages. Gratis. A report on the market for business goods and services based on questionnaire surveys of American corporations. The purchase areas studied include raw materials, commercial cars and trucks, insurance, office equipment, building and plant fixtures, and machinery and equipment.

THE CONSUMER'S FOOD-BUYING HABITS. The European Productivity Agency of the Organisation for European Economic Co-operation, Paris, 1958. 175 pages. $1.50. (Copies available from O.E.E.C. Mission Publications Office, 1346 Connecticut Avenue, N.W., Washington 6, D.C.) A report on the food-buying habits and attitudes of housewives based on interview surveys in Austria, Germany, Italy, the Netherlands, and Norway. The study analyzes buying habits for a selected group of commodities, the part played by the family grocer in the total shopping pattern, the opinions and attitudes of housewives on the current shopping situation, and the impact of such innovations in food retailing as self-service, branded goods, and canned and frozen goods.

HOW TO SELECT AN ADVERTISING AGENCY: *Portfolio 12*. Printers' Ink Books, 100 Garfield Avenue, New London, Conn., 1957. 54 pages. $10.00. This 12th Portfolio in the *Printers' Ink* series consists for the most part of actual case histories showing how leading companies have tackled the problem of choosing a new advertising agency. Some general pointers on agency selection are also provided.

PROCEEDINGS OF THE FOURTEENTH ANNUAL CONFERENCE OF SALES MANAGERS: *Series Number C-119*. The Bureau of Business Research, Ohio State University, Columbus, Ohio, 1957. 92 pages. Gratis. Six papers covering various aspects of the sales function, including training and supervision of salesmen, the cost-profit relationship, and management planning.

HOW TO INCREASE ADVERTISING EFFECTIVENESS. By Richard D. Crisp. McGraw-Hill Book Company, Inc., New York, 1958. 194 pages. $15.00. This latest issue in the McGraw-Hill series of *Consultant Reports* is a practical guide to such problems as determining the objectives of advertising; setting the advertising appropriation; evaluating existing agency relationships; analyzing advertising and marketing plans; selecting an advertising agency; and the use of research to increase advertising effectiveness.

SALESMANSHIP: *Practices and Problems*. By Bertrand R. Canfield. McGraw-Hill Book Company, Inc., New York. Third Edition, 1958. 573 pages. $6.50. This revised edition of a popular textbook on salesmanship includes new chapters on meeting competition, selling to industry, and public relations. New sales interviews illustrating the principles laid down in each chapter have also been added.

THE "HOW" OF SUCCESSFUL SALES MANAGEMENT. By Merrill De Voe. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1957. 314 pages. $5.65. A self-help book for sales executives in which the basic techniques and viewpoints of successful sales management, as developed from the experience and research of leading companies, are clearly set forth.

AMA CONFERENCE CALENDAR

OCTOBER - DECEMBER, 1958

DATE	CONFERENCE	LOCATION
October 6-7	SPECIAL MARKETING CONFERENCE on the District Sales Manager	Statler Hotel, Los Angeles
October 8-10	RESEARCH AND DEVELOPMENT CONFERENCE on Planning Products that Sell	Biltmore Hotel, New York
October 15-17	SPECIAL FINANCE CONFERENCE: Timing the Upturn—Evaluating and Using Business Indicators	Roosevelt Hotel, New York
October 22-24	OFFICE MANAGEMENT CONFERENCE	Statler Hotel, New York
October 27-29	MANUFACTURING CONFERENCE: Profit Improvement through Effective Cost Management	LaSalle Hotel, Chicago
November 6-7	SPECIAL MARKETING CONFERENCE on the District Sales Manager	Roosevelt Hotel, New York
November 17-19	INSURANCE CONFERENCE	Drake Hotel, Chicago
December 10-12	MANUFACTURING CONFERENCE: Profit Improvement through Effective Cost Management	Ambassador Hotel, Los Angeles
December 15-16	SPECIAL MARKETING CONFERENCE on the District Sales Manager	Palmer House, Chicago

To register or to obtain additional information on any of the conferences listed above, please contact Department M10, American Management Association, 1515 Broadway, New York 36, N.Y.